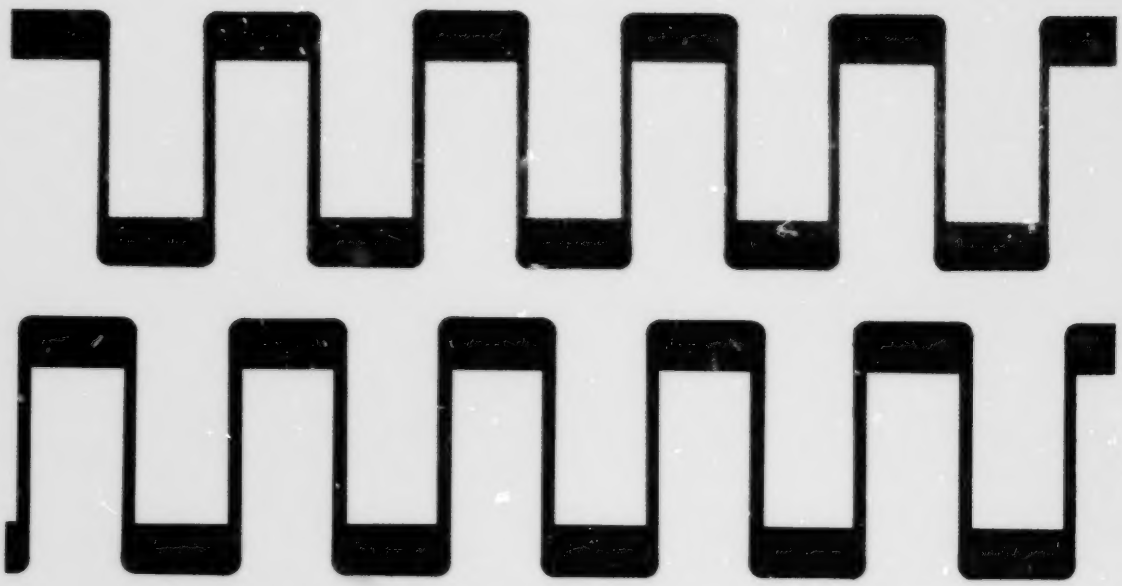
Ontario

ontario telephone service commission

1983 annual report



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Ontario

Ontario
Telephone Service
Commission

Suite 200
3625 Dufferin St.
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The Honourable John Black Aird, OC QC BA LL.D
Lieutenant Governor of Ontario
Legislative Building
Queen's Park, Ontario

MAY IT PLEASE YOUR HONOUR

I beg leave to present the 1983 Annual Report of the Ontario Telephone Service Commission for the year ending December 31, 1983.

Respectfully submitted,

James W. Snow
Minister

Ontario

Ontario
Telephone Service
Commission

Suite 200
3625 Dufferin St.
Downsview Ontar
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December 31, 1983

The Honourable James W. Snow
Minister of Transportation and Communications
3rd Floor, Ferguson Block
77 Wellesley Street West
Toronto, Ontario
M7A 1Z8

Dear Mr. Snow:

We have the honour to present herewith the Annual Report of the Ontario Telephone Service Commission for the year ending December 31, 1983.

Respectfully submitted,

V. W. Bielski, Q.C.
Chairman

R. D. Sloan,
Vice Chairman

D. A. Austin,
Member

G. Klosler,
Member

M. H. Shecter,
Member.

ONTARIO TELEPHONE SERVICE COMMISSION
1983 ANNUAL REPORT

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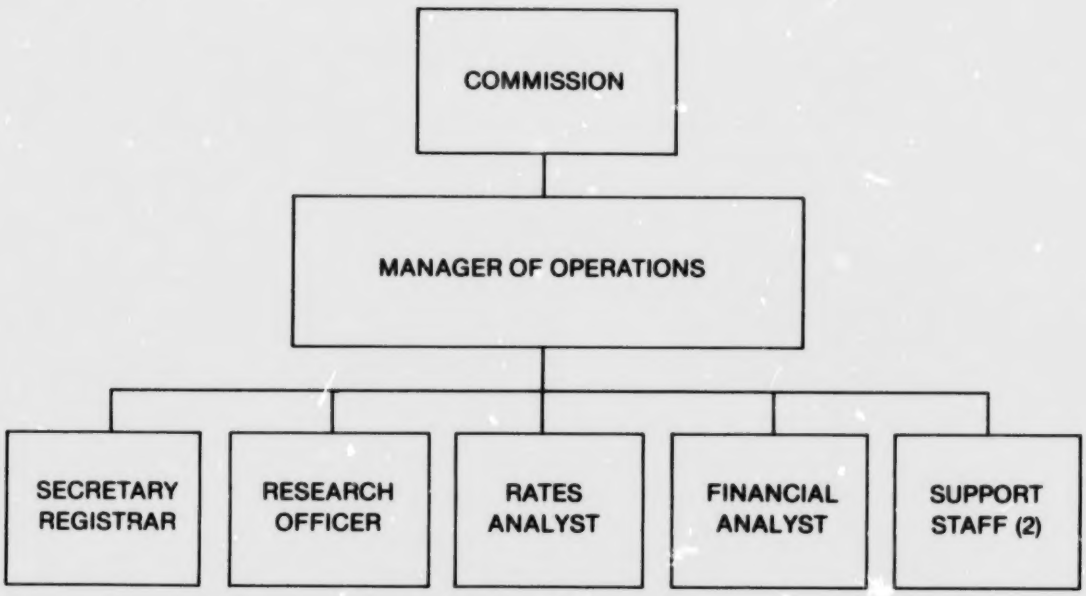
1. THE COMMISSION

The Ontario Telephone Service Commission regulates thirty-one telephone systems in Ontario. The Commission consists of five members as appointed by the Lieutenant Governor in Council.

Chairman	Mrs. V. W. Bielski, Q.C.
Vice-Chairman	Mr. R. D. Sloan
Member	Mr. D. A. Austin
Member	Mr. G. Klosler
Member	Mr. M. E. Shecter

The Commission is assisted by a staff of seven. The following chart outlines the present organizational structure of the Commission.



The Commission's governing statute is The Telephone Act, R.S.O. 1980, c.496. and in 1983 the Commission issued 99 Orders. On December 16, 1983, the Provincial Legislature passed An Act to Amend the Telephone Act. A copy of the Act appears as an appendice to this report.

The following is a summary of the number of Orders issued in respect to the purpose and the section under the Act.

Section		No. of Orders
10	Previous order revoked or amended	3
12	Sufficiency of rates for incorporated systems	5
14	Hearing of Public Complaint	1
47	Sale of Municipal Telephone System	1
71	Approval of By-Laws for Municipal Telephone Systems	5
91	Approval to interconnect customer owned equipment	1
96	Approval of agreements for interchange of service between systems	22
103	Sale or transfer of assets	2
105	Approval of changes in local telephone service rates	50
108	Change in depreciation rates	4
109	Approval to issue stock, bonds or indebtedness	4
115	Prescribing filing date of Annual Returns	1
	TOTAL:	99

In 1983 the Commission attended 8 meetings and held public field hearings in Iroquois Falls, New Liskeard, Sharbot Lake and Timmins.

The Commission issued four Orders in 1983 as a result of general rate applications. The following chart shows the disposition of the orders which are included as appendices to this report.

GENERAL RATE APPLICATIONS

Systom	Hearings	Intervenors	Order	Outcome of Request
Northern Tel.	Toronto	145	4198	5.0% approved
Northern Tel.	New Liskeard Timmins	40	4304	3.9% approved
	Iroquois Falls Toronto			
Thunder Bay	Toronto	3	4236	5.0%approved
North Frontenac	Sharbot Lake	14	4221	Denied

CUSTOMER COMPLAINTS AND INQUIRIES

The Telephone Act gives the Commission jurisdiction to hear complaints and inquiries from customers concerning the quality of services, rates and management policies of their telephone systems.

Telephone systems operate as monopolies in that they have an exclusive right to operate in their service territory. Since telephone systems do not experience competition from other carriers, dissatisfied customers cannot take their business elsewhere.

Customers can seek recourse with the Commission should they have a dispute with their telephone system. In 1983 the Commission received approximately 252 written and oral inquiries and complaints as a result of either rate applications or individual service problems. Individual service complaints and inquiries (excluding those submissions received during rate applications) appear on the following pages as per system and type of complaint or inquiry.

TELEPHONE SERVICE

CUSTOMERS COMPLAINTS AND INQUIRIES NOT RELATED TO RATE APPLICATIONS

System	Outages	Billings	Line Loads	Deposits	Service Request	*EAS	Other	Total
Amtelecom Inc.	—	1	1	—	4	—	—	6
Brooke Municipal Telephone System	—	—	—	—	—	—	1	1
Bruce Municipal Telephone System	—	—	—	—	—	—	5	5
Cochrane Public Utilities Commission	—	1	—	—	—	—	—	1
Coldwater Public Utilities Commission	—	—	—	—	2	—	—	2
Durham Telephones Limited	—	—	—	—	—	—	1	1
Hay Municipal Telephone System	—	2	—	—	—	—	—	2
Huron and Kinloss Municipal Telephone System	—	1	—	—	—	—	—	1
Manitoulin Island Telephone Company Limited	—	1	—	—	4	—	—	5
North Frontenac Telephone Company Limited	—	1	—	—	—	1	1	3
North Renfrew Telephone Company Limited	—	—	—	—	1	—	1	2
Northern Telephone Limited	—	5	2	1	7	—	1	16
Peoples Telephone Company of Forest Limited, The	—	—	—	—	1	—	1	2
Roxborough Telephone Company of Forest Limited	—	—	—	1	1	—	—	2
Westport Telephone Company, Limited, The	—	1	—	—	—	—	—	1
	0	13	3	2	20	1	11	50

* *Extended Area Service*

2. MAJOR ACTIVITIES

i) *Uniform System of Accounts*

The Commission is pleased to report that the progress of implementing the Uniform System of Accounts (USOA) has exceeded original expectations. The Commission must give credit to the Ontario Telephone Association (OTA) which has been very supportive in assisting its member systems in adopting USOA. It appears that many systems which are exempt from USOA will, nevertheless, incorporate it as a new accounting procedure.

Presently, the Commission is in the process of providing information and guidance on periodic questions which crop up as the accounts are put in place. The next step will be the finalization of the proposed annual filings which will be an integral part of the USOA. The Commission expects to have the final stages of USOA completed in 1984.

ii) *Quality of Service Indicators*

The Quality of Service Indicators project has received the same support from the OTA as has the USOA. The Commission, on January 5, 1983, released a letter recommending 11 indicators which could be used by the industry. The OTA, in response, has selected four indicators which it believes could be introduced immediately and with little inconvenience to the member systems. The indicators are:

1. Held Orders - main telephones, not completed within 30 days (excluding PBX and Key systems).
2. Installations not completed within 5 business days for telephone company reasons (excluding PBX and Key systems).
3. Percent of customer trouble reports, out of service, not cleared within one business day.
4. Customer trouble reports per 100 main stations per month.

The Commision is pleased with the progress of this project and the Commission expects that in due time most of the systems will incorporate the indicators as part of their record keeping system.

iii) *Two Tier Pricing Concept*

Since issuing the interim Interconnect Order No. 4188, the Commission has had to deal with new rate offers which telephone systems are filing in order to compete in an open interconnect market. The Commission has recentiy dealt with several applications which have employed a two tier pricing concept. Briefly, two tier pricing separates the equipment cost from the service and access cost. Two tier pricing gives customers more payment flexibility as they can either pay a large sum up front, or have it staggered over several years. The other key feature is that by separating equipment from service costs, only the service cost will be affected by any rate increases.

In interconnect Order No. 4276, the Commission considered such transactions as financial leases and a sale equivalent, and as such do not fall within the definition of "rate" as defined in The Telephone Act, and therefore, not subject for approval pursuant to the Act. Similarly, maintenance contracts associated with financial leases will not be subject to approval by the Commission in the future.

iv) *Visit to the Systems*

This past year the Commission has visited 14 systems, which means that with the exception of only the Manitoulin Island Telephone Company and Huron and Kinloss Municipal Telephone System, the Commission has almost completed it's industry familiarization project. The visits are welcomed not only by the Commission, but by the industry itself, in that it helps improve the dialogue between the Commission and the individual telephone systems. Also, the Commission finds that the experience of travelling through the territory of the independent telephone systems assists greatly in understanding the varied applications from each system.

3. REGULATORY ISSUES

i) *Terminal Attachment Final Order*

On November 18, 1982, the Commission issued Interim Order No. 4188 authorizing the interconnection of customer provided terminal attachment to the facilities of the telephone systems in Ontario, but limited the attachment to single lines only. In issuing the Interim Order the Commission had concerns with regard to the impact of terminal attachment on local service rates of the smaller systems. The Order also included some proviso for the provision of inside wiring as well as the establishment of separate accounts for the sale of telephone equipment.

All interested parties were given an opportunity to comment on any or all of the aspects of the Interim Order. In May, 1983, a final notice was issued inviting the industry and the public at large to comment on matters such as telephone sets and inside wiring, rate unbundling, small system prohibition, and the interim experience of the affect of interconnection.

The Commission on December 15th, 1983, issued Order No. 4276 on Customer Provided Terminal Attachment. After two years of collecting evidence, the Commission was of the view that it had sufficient information to proceed with the issue of a final Order. The salient points of the final Order are as follows:

1. Inside wiring and jacks remain the responsibility of the telephone system.
2. Telephone equipment to be attached must conform to the standards set out in CS-03 as amended and/or extended of the D.O.C. Terminal Attachment Program Advisory Committee.
3. Customers on two and four-party lines will be permitted to attach telephone sets provided that such sets have been inspected by the telephone system and are deemed to be compatible to the system.
4. Telephone systems wishing to sell equipment must have separate books and accounts to record all sales transactions. Expenses associated with telephone equipment must be clearly identified and considered.

The Order also directed the telephone systems to inform customers, by way of the monthly billing, of the separate components respecting equipment costs and network access within six months of the effective date.

The Commission is confident that given the extensive review of the interconnect issue, that the Order is just and fair to both the industry and the public at large.

ii) *Customer Premise Visit Charge*

Interconnection is still a relatively new concept for the public to grasp. In the past everything connected with telecommunication was provided by the serving telephone company. Now the public can purchase telephones, but they have little or no idea about standards or even the difference between rotary and touch-tone telephones.

It is not uncommon for customers to unwittingly attach a defective or unmodified telephone to their line. When this results in a problem, the customer immediately calls the telephone company. The telephone company has to send a repairman to determine the trouble source, and if that trouble is caused by the customer's equipment, then the visit becomes an unwarranted expense.

Many systems have filed and have approved a customer premise visit charge. The tariff stipulates that if a serviceman is called to a customer's premise, and if there is no problem with the telephone company's equipment, then the customer is charged for the visit. However, the Commission has ordered that the system inquire as to whether or not the customer owns his own equipment. If the customer does own his own equipment, then he is warned of the visit charge.

The Commission has not had any difficulty with this charge, either from the standpoint of the company or the customer. It is anticipated that eventually almost all of the systems will have a customer premise visit charge included as part of their tariffs.

iii) *Construction Charges*

If people were asked to identify the most useful appliances in their household, it is likely that the response would include such items as the stove and fridge, the furnace, the T.V. set, or the stereo. It is improbable that anyone would even think to mention their telephone as part of the previous group. The telephone is an item that is very much taken for granted as a household commodity. This is coupled by the fact that most North American users enjoy trouble-free uninterrupted service. People, especially urban dwellers, have grown accustomed to receiving inexpensive, readily available private line telephone service.

There has been a growing trend among some people to move away from cities and other populated areas and relocate in an isolated part of the country. While privacy and tranquility have their own rewards, it is possible that the proposed retreat may end up being more remote and isolated than the buyer anticipated. Consider the plight of the new homeowner who after proudly purchasing his "hideaway" discovers from the local telephone office that he will have to spend two thousand dollars to receive telephone service. The customer is naturally upset, he has hydro and plumbing, why on earth must he pay an outrageous sum to receive a telephone?

People who live more than 160 metres from the nearest telephone facility may be required to pay the bulk of the construction and labour costs for their telephone service. The cost may range from $500.00 to $5,000.00 depending on the distance, work and material involved. If several people wish to receive telephone service then the costs can be shared accordingly. Even with the huge cash outlay customers may only receive multi-party service and they will still be required to pay all the regular monthly rates associated with their service. While the practice of applying construction charges to isolated customers may appear to be harsh, there are several reasons for doing so.

A telephone company is a business which relies on customer payment for its revenues. Revenues come from either long distance calls or from local service. Telephone systems also have a monopoly in the area that they serve, so they do not have any competition for the provision of service. In order to guard against unfair and arbitrary rate hikes, a telephone system must report to a government regulator. In Ontario, Bell Canada's regulator is the Canadian Radio-television and Telecommunications Commission (C.R.T.C.), other independent telephone systems are regulated by the Ontario Telephone Service Commission (O.T.S.C.). There is one telephone system which is self-regulated, providing primarily long distance service, and that is the Ontario Northland Transportation Commission, a provincial crown agency.

The regulator ensures that a telephone company's rates are sufficient to meet the expenses of maintaining service, as well as allowing for service improvement and expansion. If a telephone system wishes to acquire more revenue by increasing its rates, it has to justifiably seek the regulator's approval. The regulator reviews the telephone system's current expenses as well as its plans for future improvement. The regulator also monitors past expenses in order to ascertain that funds budgeted for service improvement were actually spent on service improvement. It is for all the previous reasons that telephone systems are required to budget and allocate their financial resources very carefully. Rate applications are costly, can last anywhere from six to twelve months, and there are no guarantees that a rate increase will be granted.

The telephone system, like any other enterprise, must adhere to its budget. Providing isolated customers with service is not only expensive, it is unprofitable. However, it is difficult for customers to comprehend how a system that deals with hundreds of thousands of dollars would be affected by an undertaking involving only two or three thousand dollars. The bottom line is that costs that are assumed by the telephone system are ultimately assumed by all other telephone subscribers. Part of a telephone system improvement budget involves providing telephone service to areas that had previously been without.

Those new customers affected by the expansion program, do not have to pay the construction costs for service. The orderly and gradual expansion and improvement of the system ensures that the greatest number of customers are provided service within a reasonable cost. However, if the telephone system and the subscribers had to also absorb the cost for individual construction charges, then either:

1. certain expansion projects would be delayed, or
2. the overall service rates would have to be increased more frequently.

Ideally, money spent by the telephone system should be used to the best advantage of all subscribers. Eventually, most people in isolated areas will be given service, but they have to wait their turn.

The axiom 'buyer beware' is very applicable to persons considering the purchase of isolated or remote properties. If telephone service is desired than a quick call to the local telephone office should ascertain whether or not there is service to that area. A potential customer may also ask for a written cost estimate. If the construction charges appear unreasonably high for the work proposed the customer can seek the intervention of the government regulator.

Ultimately a little foresight can save one a lot of disappointment and grief. While it is easy to forget about the telephone, it may be difficult to live without it.

4. APPENDICES

APPENDIX (i)

AN ACT TO AMEND THE TELEPHONE ACT

HER MAJESTY, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows:

1. (1) Subsection 6(1) of the Telephone Act, being chapter 496 of the Revised Statutes of Ontario, 1980, is repealed and the following substituted therefor:

   (1) The Commission has jurisdiction and power to hear and determine all applications made, proceedings instituted and matters brought before it under this Act or under the regulations and, for such purposes, to make such orders and rules, to give such direction, to issue such certificates and perform all acts as it considers necessary.

   (2) Section 6 of the said Act is amended by adding thereto the following subsections:

   (4) Without limiting the generality of subsections (1) and (2), the Commission has the jurisdiction to make orders,

   (a) setting out the terms and conditions to be in contracts between any class of telephone system and affiliated persons, and between any class of telephone system and other person offering telephone services;

   (b) governing the nature and quality of any class of telephone services;

   (c) concerning installation of and maintenance and access to telephone facilities;

   (d) concerning accounts issued by any class of telephone system;

   (e) regulating and controlling business procedures of any class of telephone system including,

   (i) accounting methods,

   (ii) costing methods, and

   (iii) reporting of financial, construction and investment plans;

   (f) requiring the provision of any class of telephone service to applicants therefor and setting out the terms thereof.

   (5) Any order of the Commission may be general or particular in application, may be limited as to time, place, type of service or any combination thereof and may exclude any place from the application of any order.

2. Section 8 of the said Act is repealed and the following substituted therefor:

   8. All orders made by the Commission are effective upon being issued under the seal of the Commission by the secretary-registrar or another person designated by the chairman.

3. Section 9 of the said Act is amended by adding thereto the following subsections:

   (5) The Commission may make such rules governing the practice and procedure applicable to proceedings before it as it may from time to time consider necessary.

(6) The commission may, in its sole discretion, determine whether it is necessary to hold a hearing but, when a hearing is held, the Statutory Powers Procedure Act applies.

4. Section 16 of the said Act is repealed and the following substituted therefor:

16.-(1) The Lieutenant Governor in Council may by order binding on the Commission,

(a) set out criteria or guidelines to be applied by the Commission in deciding any matter subject to the jurisdiction of the Commission.

(b) require the Commission to undertake an investigation and make a report concerning any matter that in the opinion of the Lieutenant Governor in Council affects the provision of telephone services in Ontario, or to require the Commission to take any action or perform any function within the jurisdiction of the Commission.

(2) An order made under clause (1)(a) does not bind the Commission in respect of a matter before the Commission at the time the order is made.

(3) All orders made under clause (1)(a) shall be published in The Ontario Gazette.

5. Section 22 of the said Act is repealed and the following substituted therefor:

22. An order of the Commission made under this Act is not a regulation within the meaning of the Regulation Act.

6. Section 26 of the said Act is repealed and the following substituted therefor:

26.-(1) The Lieutenant Governor in Council may make regulations,

(a) prescribing classes of telephone systems and classes of telephone services;

(b) prescribing terms and conditions and rules applicable to any class of telephone system and customers in respect of classes of telephone services;

(c) exempting any class of telephone system from the application of any section of this Act and prescribing conditions for exemption;

(d) exempting any class of telephone service from any section of this Act and prescribing conditions for exemptions.

(2) Any regulation may be general or particular in its application, may be limited as to time, place, type of service or any combination thereof and may exclude any place from the application of the regulation.

7. Section 45 of the said Act is repealed and the following substituted therefor:

45. The council of an initiating municipality or the commissioners, as the case may be, shall determine the location of any exchange or switchboard of the system and any relocation of the same.

8. Section 61 of the said Act is amended by adding thereto the following subsection:

(3) A municipal telephone system may, in extraordinary circumstances, with the approval of the Commission, earn greater revenues than provided for in this section where such revenues are used for the purpose of complying with an order of the Commission.

9. Subsection 71(1) of the said Act is amended by striking out "approved by the Commission and" in the sixteenth and seventeenth lines.

10. Section 88 of the said Act is repealed and the following substituted therefor:

88. Every incorporated telephone company shall keep every by-law, special by-law or special resolution available for inspection at the head office of the company.

11. Section 105 of the said Act is amended by adding thereto the following subsection:

(3) Every rate or toll charged or levied by a telephone system shall be just and reasonable.

12. Section 106 of the said Act is repealed and the following substituted therefor:

106.-(1) No telephone system, in offering or providing a telephone service, shall,

(a) make an unwarranted discrimination against any person;

(b) give an undue advantage to any person; or

(c) subject any person to an undue disadvantage.

(2) Where it is alleged that a telephone system has committed an act mentioned in subsection (1), the onus of proving that the discrimination is warranted or that the advantage or disadvantage is not undue is on the telephone system.

(3) Charging different rates based on the nature of the use made of a telephone system is not a contravention of this section.

13. Section 108 of the said Act is repealed and the following substituted therefor:

108.-(1) Every telephone system and municipality shall file with the Commission its rates of depreciation in such form and containing such particulars as the Commission requires, and no telephone system or municipality shall employ a rate of depreciation that has not been filed with and approved by the Commission.

(2) The Commission may at any time require a telephone system or municipality to make such changes in the rates of depreciation as the Commission considers expedient.

14. This Act comes into force on the day it receives Royal Assent.

15. The short title of this Act is the Telephone Amendment Act, 1983.

APPENDIX (ii)

Type of Entity of the Independent Telephone Systems Operating in Ontario in 1983.

	Systems		Telephones	
	No.	%	No.	%
Systems operated as public utilities by municipal corporations	5	16.1	123,005	44.0
Municipal Systems	10	32.3	38,410	14.0
Incorporated companies	16	51.6	117,204	42.0
TOTAL:	31	100.0	278,619	100.0

APPENDIX (iii)

Size Distribution of the Independent Telephone Systems Operating in Ontario 1983.

No. of Telephones	No. of Systems	Percent
0 - 500	1	3.2
501 - 1,000	1	3.2
1,001 - 2,000	11	38.7
2,001 - 3,000	6	16.2
3,001 - 4,000	3	9.6
4,001 - 5,000	3	9.6
5,001 - 10,000	2	6.5
10,001 - 50,000	2	6.5
50,001 - 100,000	2	6.5
	31	100.0

APPENDIX (iv)

Net growth of the Telephone Industry in Ontario since 1973.

Dec. 31	No. of Systems	No. of Telephones	% Change
1973	40	216,007	5.13
1974	40	227,810	5.46
1975	40	240,700	5.66
1976	39	258,161	7.25
1977	36	262,363	1.63
1978	35	274,916	4.78
1979	32	284,288	3.41
1980	31	261,446	(8.03)
1981	31	270,053	3.29
1982	31	274,317	1.60
1983	31	278,619	1.54

APPENDIX (V)

SUMMARY OF INDEPENDENT TELEPHONE SYSTEMS DATA AS AT DECEMBER 31, 1983.

	NAME OF SYSTEM	OPERATING HEAD	ADDRESS AND TELEPHONE NUMBER	EXCHANGES	TELEPHONE NUMBERS (A)	OTHER TELEPHONES (B)	TOTAL	TOTAL COMPANY TELEPHONES
3	Abitibi-Price Incorporated	F. R. Robar Electrical Superintendent	Iroquois Falls P0K 1E0 (705) 258-3241	Iroquois Falls	776	527	1,303	1,303
3	Amtelecom Incorporated	R. B. Barnard President and General Manager	18 Sydenham Street Aylmer N5H 1L2 (519) 773-8441	Aylmer	4,617	2,588	7,205	
				Cambray	642	144	783	
				Dyer's Bay	113	21	134	
				Lion's Head	784	217	1,001	
				Port Burwell	612	239	851	
				Stokes Bay	95	16	111	
				Straffordville	1,003	392	1,395	
				Tobermory	508	151	659	
					8,374	3,768	12,142	12,142
2	Blanshard Municipal Telephone System	L. Mardlin Manager	Kirkton N0K 1K0 (519) 229-8933	Granton	559	362	921	
				Kirkton	962	615	1,577	
				Sebringville	1,061	601	1,662	
				Uniondale	425	253	678	
					3,007	1,831	4,838	4,838
2	Brooke Municipal Telephone System	W. Chapman Manager	P.O. Box 40 Inwood N0N 1K0 (519) 396-3322	Alvinston (S)	296	127	423	
				Inwood	495	229	724	
				Watford (S)	543	237	780	
					1,334	593	1,927	1,927
2	Bruce Municipal Telephone System	J. T. Scurfield Manager	P.O. Box 580 Kincardine N0G 2G0 (519) 396-3322	Kincardine	3,807	1,839	5,646	
				Paisley	902	379	1,281	
				Port Elgin	3,470	1,479	4,949	
				Tiverton	1,169	333	1,502	
					9,348	4,030	13,378	13,378
3	Capital Telephone Company Limited	R. M. Botham Assistant Secretary-Treasurer	c/o Bell Canada 393 University Avenue 19th Floor Toronto M5G 1W9 (416) 599-4936	Maberly	213	76	289	289
1	Cochrane Public Utilities Commission	G. F. Jarvis Engineering Manager	153 Sixth Avenue P.O. Box 640 Cochrane P0L 1C0 (705) 272-4232	Cochrane	2,117	1,355	3,472	3,472

SUMMARY OF INDEPENDENT TELEPHONE SYSTEMS DATA AS AT DECEMBER 31, 1983.

	NAME OF SYSTEM	OPERATING HEAD	ADDRESS AND TELEPHONE NUMBER	EXCHANGES	TELEPHONE NUMBERS (A)	OTHER TELEPHONES (B)	TOTAL	TOTAL COMPANY TELEPHONES
2	Coldwater Municipal Telephone System	G. Moreau Secretary-Treasurer	P.O. Box 202 Coldwater L0K 1E0 (705) 686-3698	Coldwater	885	306	1,191	1,191
1	Dryden Municipal Telephone System	W. M. Wake Secretary-Chief Administrative Officer	30 Van Horne Avenue Dryden P8N 2A7 (807) 223-2226	Dryden	3,209	2,827	6,036	6,036
3	Durham Telephones Limited	J. E. Downs General Manager	63 Brule Gardens Toronto M6S 4J5 (416) 767-4042	Cavan Millbrook	354 843 1,197	158 467 625	512 1,310 1,822	1,822
2	Gosfield North Municipal Telephone System	J. Helkie Manager	P.O. Box 130 Cottam N0R 1B0 (519) 839-4844	Cottam	1,115	516	1,631	1,631
2	Hay Municipal Telephone System	W. H. Wagner Manager and Secretary-Treasurer	P.O. Box 99 Zurich N0M 2T0 (519) 236-4333	Dashwood Grand Bend Zurich	438 1,810 966 3,214	233 677 415 1,325	671 2,487 1,381 4,539	4,539
2	Huron and Kinloss Municipal Telephone System	C. Nicholson Manager	P.O. Box 220 Huron Street Ripley N0G 2R0 (519) 395-2626	Dungannon Ripley	865 1,709 2,574	286 670 956	1,151 2,379 3,530	3,530
3	Hurontario Telephones Limited	K. V. Stevens Manager	P.O. Box 59 Thedford N0M 2N0 (519) 296-4926	Port Franks Thedford	940 558 1,498	325 292 617	1,265 850 2,115	2,115
1	Keewatin Municipal Telephone System	J. Ortlieb Wire Chief	P.O. Box 139 Keewatin P0X 1C0 (807) 547-2881	Keewatin	804	529	1,333	1,333

SUMMARY OF INDEPENDENT TELEPHONE SYSTEMS DATA AS AT DECEMBER 31, 1983.

	NAME OF SYSTEM	OPERATING HEAD	ADDRESS AND TELEPHONE NUMBER	EXCHANGES	TELEPHONE NUMBERS (A)	OTHER TELEPHONES (B)	TOTAL	TOTAL COMPANY TELEPHONES
1	Kenora Municipal Telephone System	G. Dunford Operating Head	P.O. Box 1110 Kenora P9N 3X7 (807) 468-8906	Kenora	5,136	4,281	9,417	9,417
3	Lansdowne Rural Telephone Company Limited	R. P. Crawford General Manager	P.O. Box 9 Lansdowne K0E 1L0 (613) 659-2222	Lansdowne	1,342	568	1,910	1,910
3	Manitoulin Island Telephone Company Limited	R. B. Barnard General Manager	18 Sydenham Street East Aylmer N5H 1L2 (519) 773-8441	Manitowaning Mindemoya	854 891 1,745	271 357 628	1,125 1,248 2,373	2,373
2	Mornington Municipal Telephone System	E. J. Bey Secretary-Treasurer	16 Mill Street Milverton N0K 1M0 (519) 595-8331	Milverton	1,527	778	2,305	2,305
3	North Frontenac Telephone Company Limited	H. J. Schmidt Secretary-Treasurer	P.O. Box 130 Baden N0B 1G0 (519) 634-5300	Parham Sharbot Lake	474 725 1,199	80 185 265	554 910 1,464	1,464
2	North Norwich Municipal Telephone System	A. Williams Secretary-Treasurer	P.O. Box 33 Burgessville N0J 1C0 (519) 424-9171	Burgessville Norwich (S) Woodstock (S)	840 319 287 1,446	362 145 169 676	1,202 464 456 2,122	2,122
3	North Renfrew Telephone Company Limited	W. Vandekemp Manager	P.O. Box 70 Beachburg K0J 1C0 (613) 582-3600	Beachburg Pembroke (S) Westmeath	540 265 335 1,140	212 115 105 432	752 380 440 1,572	1,572

SUMMARY OF INDEPENDENT TELEPHONE SYSTEMS DATA AS AT DECEMBER 31, 1983.

	NAME OF SYSTEM	OPERATING HEAD	ADDRESS AND TELEPHONE NUMBER	EXCHANGES	TELEPHONE NUMBERS (A)	OTHER TELEPHONES (B)	TOTAL	TOTAL COMPANY TELEPHONES
3	Northern Telephone Limited	M. W. Cooper President and General Manager	17 Paget Street Box H New Liskeard P0J 1P0 (705) 647-7311	Abitibi Canyon	22	67	89	
				Calstock	110	63	173	
				Cobalt	893	387	1,280	
				Cochrane (S)	682	230	912	
				Connaught	136	39	175	
				Detour Lake	16	73	89	
				Earlton	902	354	1,256	
				Elk Lake	228	78	306	
				Englehart	1,539	745	2,284	
				Fauquier	243	76	319	
				Gowganda	70	28	98	
				Haileybury	1,809	852	2,661	
				Hearst	2,765	1,871	4,636	
				Iroquois Falls	2,019	947	2,966	
				Kamiskotia	56	8	64	
				Kapuskasing	5,070	3,853	8,923	
				Kirkland Lake	5,235	2,744	7,979	
				Larder Lake	432	129	561	
				Latchford	135	47	182	
				Matachewan	143	54	197	
				Matheson	715	334	1049	
				Mattice	331	90	421	
				Moonbeam	583	221	804	
				New Liskeard	3,832	2,549	6,381	
				Opasatika	146	51	197	
				Opishing	10	2	12	
				Ramore	367	128	495	
				Smooth Rock Falls	942	528	1,470	
				South Porcupine	2,945	2,393	5,338	
				Swastika	743	341	1,084	
				Timmins	15,464	9,101	24,565	
				Virginiatown	459	183	642	
					49,042	28,566	77,608	77,608
3	Otonabee Telephones Limited	J. D. Downs General Manager	63 Brule Gdns Toronto M6S 4J5 (416) 767-4042	Keene	943	368	1,311	1,311
3	People's Telephone Company of Forest, Limited (The)	K. Laughlin Manager	P.O. Box 700 Forest NON 1J0 (519) 786-2351	Aberarder	668	205	873	
				Arkona	494	274	768	
				Forest	2,242	932	3,174	
					3,404	1,411	4,815	4,815

SUMMARY OF INDEPENDENT TELEPHONE SYSTEMS DATA AS AT DECEMBER 31, 1983.

	NAME OF SYSTEM	OPERATING HEAD	ADDRESS AND TELEPHONE NUMBER	EXCHANGES	TELEPHONE NUMBERS (A)	OTHER TELEPHONES (B)	TOTAL	TOTAL COMPANY TELEPHONES
3	Roxborough Telephone Company Limited	J. W. Beach Manager	P.O. Box 179 Moose Creek K0C 1W0 (613) 538-2800	Moose Creek	394	196	590	590
3	South Bruce Rural Telephone Company Limited	A. T. McTavish Manager and Secretary-Treasurer	Teeswater N0G 2S0 (519) 392-6873	Mildmay Teeswater	1,076 956	356 333	1,432 1,289	
					2,032	689	2,721	2,721
1	Thunder Bay Telecommunications	A. M. Hawkins Manager	241 Vickers Street South Thunder Bay P7E 1J5 (807) 623-2711	Court Street Current River MacKenzie Murillo Riverview Rosslyn Shuniah Vickers Street	17,255 2,595 720 654 9,980 1,213 7,248 17,180	14,478 1,542 191 267 9,493 663 3,856 15,412	31,733 4,137 911 921 19,473 1,876 11,104 32,592	
					56,845	45,902	102,747	102,747
2	Tuckersmith Municipal Telephone System	M. Graham Secretary-Treasurer	R.R. #1 Brucefield N0M 1J0 (519) 482-9908	Bayfield Clinton (S) Hensall (S) Seaforth (S)	789 352 352 435	295 237 238 251	1,084 589 590 686	
					1,928	1,021	2,949	2,949
3	Westport Telephone Company	H. A. Lynn Manager	P.O. Box 252 Westport K0G 1X0 (613) 273-2121	Westport	1,201	364	1,565	1,565
3	Wightman Telephone Limited	R. Wightman President	P.O. Box 70 Clifford N0G 1M0 (519) 327-8012	Ayton Clifford Gorrie Neustadt	414 586 1,102 330	205 282 556 129	619 868 1,658 459	
					2,432	1,172	3,604	3,604
	TOTAL:				171,421	107,198	278,619	278,619

SUMMARY OF INDEPENDENT TELEPHONE SYSTEMS DATA AS AT DECEMBER 31, 1983.

	NAME OF SYSTEM	OPERATING HEAD	ADDRESS AND TELEPHONE NUMBER	EXCHANGES	TELEPHONE NUMBERS (A)	OTHER TELEPHONES (B)	TOTAL	TOTAL COMPANY TELEPHONES

GROUPS:

1. Systems established under The Telephone Act by municipal corporations and operated as public utilities.

2. Systems established under The Telephone Act by, and vested in municipal corporations in trust for the benefit of the subscribers and operated by the municipal council or by a commission elected by the subscribers.

3. Incorporated companies.

NOTES:

(A) Main telephones and PBX trunk lines.

(B) Extensions and coin telephones.

(S) Indicates the exchange to which service system lines connect.

COMMISSION ORDERS ISSUED - 1983

ORDER	DATE ISSUED	APPLICANT	PURPOSE
4195	83 01 24	Roxborough Telephone Company Limited	Approval of security deposits
4196	83 01 24	North Renfrew Telephone Company Limited	Late Payment Charge
4197	83 01 24	Hay Municipal Telephone System	John Twynstra, disconnection of telephone service
4198	83 01 18	Northern Telephone Limited	Approval of change in telephone rates
4199	83 02 02	Bruce Municipal Telephone System	Approval for Annual Meeting date change, April 20, 1983
4200	83 02 04	Manitoulin Island Telephone Company Ltd.	CRT Supplement Agreement with Bell Canada
4201	83 02 10	Bruce Municipal Telephone System	Non-recurring service charge - $25.00
4202	83 02 11	Hay Municipal Telephone System	Approval for Increase Late Payment Charge
4203	83 02 11	Hay Municipal Telephone System	Approval for Security Deposit Charges
4204	83 02 11	Hay Municipal Telephone System	Re-Hearing of Order #4197, John Twynstra, dated Jan. 24, 1983
4205	83 03 10	Blanshard Municipal Telephone System	Traffic Agreement with Bell Canada, Appendix #5
4206	83 03 10	Northern Telephone Limited	Rates - for 'e Phone'
4207	83 03 10	Northern Telephone Limited	Rate Structure - telephone service
4208	83 03 10	Gosfield North Municipal Telephone System	Late Payment Charge
4209	83 03 10	Cochrane Public Utilities Commission	Approval for Late filing of Annual Returns
4210	83 03 10	Coldwater Municipal Telephone System	By-Law Nos. 6 and 7
4211	83 03 18	Northern Telephone Limited	Rates - for Super 10 E.P.B.X.
4212	83 03 18	Northern Telephone Limited	Rates - for SX 10 Electronic Key Tel. System
4213	83 03 18	Northern Telephone Limited	Rates - for SX-200 E.P.B.X.
4214	83 03 18	Northern Telephone Limited	Rates - for Vantage 12 Electronic Key Tel.System
4215	83 03 23	Northern Telephone Limited	Rate Structure - Order No. 4207 Revised
4216	83 03 23	Manitoulin Island Tel. Co. Ltd.	Evidence of Indebtedness - $1,000,000
4217	83 03 28	Thunder Bay Telecommunications	Rates - Interim Increase - Denial
4218	83 03 30	Northern Telephone Limited	Amendment to Order No. 3949
4219	83 04 15	Durham Telephones Limited	Rates - for SX-20 Electronic PABX equipment
4220	83 04 26	North Frontenac Telephone Company Ltd.	Evidence of Indebtedness
4221	83 04 26	North Frontenac Telephone Company Ltd.	Additional Revenue Requirement - Denial
4222	83 05 02	Otonabee Municipal Telephone System	Date of Annual Meeting
4223	83 05 09	Northern Telephone Limited	T.A. APP. A, sec.II; APP. B, sec.III, IV, VI to T.A. with ONTC
4224	83 05 09	Amtelecom Incorporated	Rates - for Vantage 12 Electronic Key Telephone System

COMMISSION ORDERS ISSUED - 1983

ORDER	DATE ISSUED	APPLICANT	PURPOSE
4225	83 05 09	Amtelecom Incorporated	Rates - for SX20 Private Electronic Branch Exchange System
4226	83 05 10	Northern Telephone Limited	Transfer of Assets, Bell Canada Enterprises, Inc.
4227	83 05 10	Capital Telephone Company, Limited	Transfer of Assets, Bell Canada Enterprises, Inc.
4228	83 06 23	Hurontario Telephones Limited	N.S.F. Cheque Charge
4229	83 06 27	Lansdowne Rural Telephone	N.S.F. Cheque Charge ($5.00)
4230	83 06 28	Hay Municipal Telephone System	Non-Recurring Service Charge
4231	83 06 30	Northern Telephone Limited	Revised Provisional Depreciation Accrual rate
4232	83 07 13	Otonabee Municipal Telephone System	Sale of the Assets of the Telephone System
4233	83 07 14	Kenora Municipal Telephone Systems	Rates - Coin Telephone ($.25)
4234	83 07 14	Kenora Municipal Telephone Systems	Non-Recurring Charge - Customer Premise Visit ($50.00)
4235	83 07 14	Lansdowne Rural Telephone Company Ltd.	Non-Recurring Charge - Customer Premise Visit ($30.00)
4236	83 07 20	Thunder Bay Telecommunications	Additional Revenue Requirement and Rate Structure
4237	83 07 20	Bruce Municipal Telephone System	By-Law No. 1, 1983
4238	83 07 20	Kenora Municipal Telephone System	Custom Calling Features
4239	83 07 20	Blanshard Municipal Telephone System	Traffic Agreement - App.5 to T.A. with Bell Canada
4240	83 08 22	North Norwich M.T.S.	By Law - Commissioners' fees
4241	83 08 23	Otonabee Telephones Limited	Rate Structure
4242	83 08 23	Otonabee Telephones Limited	Evidence of Indebtedness and Issuance of Stock
4243(I)	83 08 23	Northern Telephone Limited	Rates - Ultracom Electronic Key Telephone System
4244	83 08 31	Cochrane Public Utilities Commission	Security Deposit Charge
4245	83 08 31	Cochrane Public Utilities Commission	Late Payment Charge
4246	83 08 31	Lansdowne Rural Telephone Company Ltd.	Coin Telephone Charge - 25¢
4247	83 08 31	Wightman Telephone Limited	Non-Recurring Charge - Customer Provided Equipment
4248	83 09 23	Durham Telephones Limited	Approval of an agreement with Otonabee Telephones Limited
4249	83 09 23	Otonabee Telephones Limited	Approval of an agreement with Durham Telephones Limited
4250	83 09 30	Otonabee Telephones Limited	Rates - Miscellaneous equipment
4251	83 09 30	Dryden Municipal Telephone System	Rates - Custom Calling Features
4252	83 09 30	Durham Telephones Limited	Depreciation rates
4253	83 11 10	Cochrane Public Utilities Commission	Evidence of Indebtedness, $200,000
4254	83 11 10	Cochrane Public Utilities Commission	Rates - Miscellaneous Equipment and Customer Services

COMMISSION ORDERS ISSUED - 1983

ORDER	DATE ISSUED	APPLICANT	PURPOSE
4255	83 11 14	Abitibi-Price Incorporated	Rates - Miscellaneous Equipment and Customer Services
4256	83 11 14	Brooke Municipal Telephone System	Rates - Directory Assistance Charge
4257	83 11 14	Capital Telephone Company Limited	Rates - Miscellaneous Equipment and Customer Services
4258	83 11 14	Hurontario Telephones Limited	Rates - Miscellaenous Equipment and Customer Services
4259	83 11 14	Tuckersmith Municipal Telephone System	Rates - Directory Assistance Charge
4260	83 11 14	North Norwich Municipal Telephone System	Rates - Digipulse Service and Directory Assistance Charge
4261	83 11 14	Gosfield North Municipal Telephone System	Rates - Miscellaneous Equipment and Customer Services
4262	83 11 14	Lansdowne Rural Telephone Company, Ltd.	Rates - Miscellaneous Equipment and Customer Services
4263	83 11 14	Wightman Telephone Limited	Rates - Miscellaneous Equipment and Customer Services
4264	83 11 14	Westport Telephone Company	Rates - Miscellaneous Equipment and Customer Services
4265	83 11 14	South Bruce Rural Telephone Company, Ltd.	Rates - Miscellaneous Equipment and Customer Services
4266(I)	83 11 24	People's Telephone Company of Forest, Ltd.	Rates - SX20 Private Branch Exchange System
4267	83 11 14	Blanshard Municipal Telephone System	Rates - Miscellaneous Equipment and Customer Services
4268	83 11 14	Bruce Municipal Telephone System	Rates - Miscellaneous Equipment and Customer Services
4269	83 11 14	Ontario Telephone Service Commission	Revocation of Previous Orders
4270	83 11 24	Ontario Telephone Service Commission	Rates - Directory Assistance Charge - Revocation
4271	83 11 25	Hurontario Telephones Limited	Rates - Non-Recurring Service Charge
4272	83 11 25	Hurontario Telephones Limited	Rates - Depreciation
4273	83 11 25	Northern Telephone Limited	Rates - Depreciation
4274	83 12 01	Blanshard Municipal Telephone System	Rates - Coin Telephone Charge
4275	83 12 01	Northern Telephone Limited	Rates - Customer Premise Equipment Maintenance Charge
4276	83 12 15	The Commission on its own motion	Approval of Interconnection of C.P.T.E. to facilities of Systems
4277	83 12 19	Amtelecom Inc.	Approval of Revised Appendices to T.A. with Bell Canada
4278	83 12 19	Blanshard M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4279	83 12 21	Brooke M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4280	84 01 09	Bruce M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4281	83 12 19	Capital Telephone Company Limited	Approval of Revised Appendices to T.A. with Bell Canada
4282	84 01 03**	Coldwater M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4283	83 12 19	Dryden M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4284	84 01 03**	Durham Telephones Limited	Approval of Revised Appendices to T.A. with Bell Canada

COMMISSION ORDERS ISSUED - 1983

ORDER	DATE ISSUED	APPLICANT	PURPOSE
4285	84 02 16**	Gosfield North M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4286	83 12 19	Hay M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4287	84 02 16**	Huron and Kinloss M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4288	83 12 19	Hurontario Telephones Limited	Approval of Revised Appendices to T.A. with Bell Canada
4289	84 01 03**	Keewatin M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4290	84 02 16**	Kenora M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4291	83 12 21	Lansdowne Rural Telephone Company Ltd.	Approval of Revised Appendices to T.A. with Bell Canada
4292	83 12 19	Manitoulin Island Telephone Company Ltd.	Approval of Revised Appendices to T.A. with Bell Canada
4293	84 01 03**	Mornington M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4294	83 12 19	North Frontenac Telephone Company Ltd.	Approval of Revised Appendices to T.A. with Bell Canada
4295	84 02 16**	North Norwich M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4296	84 02 16**	North Renfrew Telephone Company Limited	Approval of Revised Appendices to T.A. with Bell Canada
4297	84 01 03**	People's Telephone Company of Forest, Ltd	Approval of Revised Appendices to T.A. with Bell Canada
4298	84 01 03**	Roxborough Telephone Company Limited	Approval of Revised Appendices to T.A. with Bell Canada
4299	83 12 19	South Bruce Rural Telephone Company Ltd.	Approval of Revised Appendices to T.A. with Bell Canada
4300	83 12 19	Thunder Bay Telecommunications	Approval of Revised Appendices to T.A. with Bell Canada
4301	83 12 19	Tuckersmith M.T.S.	Approval of Revised Appendices to T.A. with Bell Canada
4302	84 01 31**	Westport Telephone Company Limited	Approval of Revised Appendices to T.A. with Bell Canada
4303	83 12 19	Wightman Telephone Limited	Approval of Revised Appendices to T.A. with Bell Canada
4304	83 12 20	Northern Telephone Limited	Rates - Approval of Telephone Rates

** These Applications were approved in 1983, but due to late filing, Orders were issued in 1984.

APPENDIX (vii)

ORDERS OF JUDGEMENT OF THE COMMISSION

4197 IN THE MATTER of an application by Mr. John Twynstra in regard to the disconnection of telephone service by the Corporation of the Township of Hay.

4198 IN THE MATTER of an application by Northern Telephone Limited for approval of a change in rates for local telephone service.

4221 IN THE MATTER of an application by the North Frontenac Telephone Company Limited for a change in rates for local telephone service.

4236 IN THE MATTER of an application by the Corporation of the City of Thunder Bay for approval to change the rates for local telephone service.

4269 IN THE MATTER of a review of Order No. 2720 dated May 29, 1970; Order No. 2970 dated June 15, 1972; Order No. 3126 dated November 8, 1983; and Order No. 3221 dated October 7, 1974.

4270 IN THE MATTER of a review of the Directory Assistance Charge and the conditions under which such a charge shall apply.

4276 IN THE MATTER of the interconnection of customer provided terminal equipment to the facilities of the telephone systems subject to the jurisdiction of Ontario.

4304 IN THE MATTER of an application by Northern Telephone Limited for approval of a change in rates for local telephone service.

ORDER NO. 4197

Monday, the 24th day of January, A.D. 1983

BEFORE

V. W. Bielski, Q.C. Chairman	)	IN THE MATTER of sections 6(1) 14 and 89 of The Telephone Act (R.S.O. 1980, c.496)
R. D. Sloan, Vice Chairman, and	)	and
G. Klosler, Member	)	IN THE MATTER of an application by Mr. John Twynstra in regard to the disconnection of telephone service by the Corporation of the Township of Hay.

HEARD AT:

TORONTO, January 24, 1983

1.0 ORDER

1.1 UPON THE APPLICATION by Mr. John Twynstra, on behalf of himself and on behalf of the Triple A Driver's Service Limited, hereinafter referred to as the Applicant, complaining that the Corporation of the Township of Hay had disconnected telephone service,

1.2 AND UPON READING the said application and other material and written evidence filed,

1.3 THE COMMISSION HEREBY ORDERS, under and in pursuance of sections 6(1), 14, and 89 of The Telephone Act (R.S.O. 1980, c.496), that the Corporation of the Township of Hay, hereinafter referred to as the Telephone System, reconnect immediately, without any charge, the Applicant's residential telephone service and the business telephone service for the Triple A Driver's Service Limited.

2.0 REASONS

On December 29, 1982, Applicant filed with the Commission an application requesting a Commission Order for the reinstatement of telephone service.

Based on the evidence filed by the Applicant and the Telephone System, it is important to note the sequence of events and, in particular, the circumstances as to the Applicant.

There were three telephone services provided by the Telephone System as follows:

- A business telephone service (238-8448) to a company known as Huron Grain Leasing Limited;
- A business telephone service (238-2525) to a company known as Triple A Driver's Service Limited;
- A residential telephone service (238-2702) to the Applicant.

On November 12, 1982, the business telephone service (238-8448) for the Huron Grain Leasing Limited, was disconnected by the Telephone System. This was the result of a considerable default of payment of monthly rates and toll billed to the Huron Grain Leasing Limited. The Telephone System had provided the written notice of disconnection pursuant to section 89(3) of The Telephone Act.

On December 15, 1982, the Telephone System wrote to the Applicant requesting immediate payment in full of the outstanding Huron Grain Leasing Limited account. Furthermore, the Telephone System gave notice that if payment was not forthcoming, the Applicant's residential service (238-2702), and the telephone service to Triple A Driver's Service Limited (238-2525), would be disconnected.

On December 22, 1982, the Telephone System disconnected the Telephone service provided to the Applicant and Triple A Driver's Service Limited.

It is important to note that there was no dispute in regard to the disconnection of telephone service (238-8448) for the Huron Grain Leasing Limited, which occurred on November 12, 1982. The Company had been in default of payment of the account to the Telephone System and the disconnection had been given the proper notice, pursuant to section 89(3) of The Telephone Act.

However, the dispute did occur in respect to the disconnection of telephone service for the Applicant and the Triple A Driver's Service Limited.

The Applicant provided evidence that there was no default of payment of accounts for his residential telephone service (238-2702), nor for the Triple A Driver's Service Limited business telephone service (238-2525). Mr. Twynstra indicated that the accounts for both had been continuously paid, and that only the Huron Grain Leasing Limited accounts was outstanding and unpaid. Also, it was indicated that he, Mr. Twynstra and the Triple A Driver's Service Limited, suffered greatly by the unnecessary disconnection of the telephone service.

The Telephone System provided evidence on the same note in respect to the three telephone service disconnections, that is, business (238-8448) for Huron Grain Leasing Limited on December 12, 1982; business (238-2525) for Triple A Driver's Service Limited and residential (238-2702) for Mr. Twynstra on December 22, 1982, based on the default of payment of account only by the Huron Grain Leasing Limited.

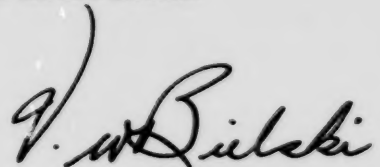
The Telephone System stated that the disconnection of the two telephone services on December 22, 1982, was a result of information that the Applicant, Mr. Twynstra was "indeed the President of both Huron Grain and Triple A Driver's Services", and "the only things that were different were the telephone numbers and the company names." In other words, the Applicant was the only person who had not paid his account to the Telephone System, and therefore, his telephone numbers were disconnected, pursuant to section 89(3) of The Telephone Act.

It should be noted that the primary issue to be determined by the Commission was the meaning of the word 'person' in section 89(3) of The Telephone Act. In this respect, it is bound by The Interpretation Act (R.S.O. 1980, c.219), that is, 'person' includes a corporation . . . or other legal representative of a person . . . ".

The Commission wishes to state very clearly that separate legal entities cannot be ignored. There were three persons involved: Huron Grain Leasing Limited; Triple A Driver's Service Limited; and Mr. John Twynstra. There was one person in default, that is, Huron Grain Leasing Limited, and therefore, the only person that the Telephone System could disconnect service.

The Telephone System failed to recognize these three separate legal entities to which it provided telephone services and from which it could seek due payment. Therefore, the Commission concluded that the Telephone System could not have applied section 89(3) of The Telephone Act for the purpose of disconnection of the Applicant's residential service and the Triple A Driver's Service Limited. In other words, pursuant to section 89(3) of The Telephone Act, the Telephone System may terminate telephone service only if a person is in default of payment of his account. Based on the evidence, the only 'person' in default of payment was Huron Grain Leasing Limited.

Therefore, the Commission has no alternative but to order the Telephone System to reconnect the residential telephone service for the Applicant and the Triple A Driver's Service Limited for the business telephone service. Such reconnection is to be provided immediately and without any charge as it is clear that the Telephone System failed to find any evidentiary reason for its cause to disconnect the residential telephone service and the business telephone service to Triple A Driver's Service Limited.



Chairman

ORDER NO. 4198

Tuesday, the 18th day of January, A.D. 1983

BEFORE

V. W. Bielski, Q.C. Chairman and E. A. Frith, Member, and M. E. Parry, Member	)	IN THE MATTER of sections 6(1) 12 and 105 of The Telephone Act (R.S.O. 1980, c.496) and IN THE MATTER of an application by Northern Telephone Limited for approval of a change in rates for telephone service.

HEARD AT:

TORONTO, November 3 and 4, 1982.

APPEARANCES:

For Northern Telephone Company, Limited	Mr. W. Cooper, President and General Manager M. C. Rand, Counsel
For City of Timmins	J. Reid, Industrial Commissioner

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10.0			Revenue Requirement
11.0			Construction Program
	11.1		Historical Levels of Construction Expenditures
	11.2		Revised Estimates
	11.3		Test Year 1983
	11.4		Rural Program

1.0 ORDER

1.1 UPON THE APPLICATION of Northern Telephone Limited (NTL), hereinafter referred to as the Applicant, upon reading the application and other material filed and upon evidence presented during the hearing,

1.2 THE COMMISSION HEREBY AUTHORIZES, under and in pursuance of sections 6(1), 12 and 105 of The Telephone Act (R.S.O. 1980, c.496) the Applicant to increase local service rates to generate additional annual revenues of $547,000.

1.3 THE COMMISSION ORDERS that the Applicant prepare and submit to the Commission for approval a revised rate structure to generate total additional local service revenues of $547,000 annually based upon the estimated average revenue producing units in service during 1983.

2.0 BACKGROUND

On June 23, 1982, the Commission issued Order No. 4152 which approved an average rate increase of approximately 17 percent effective July 1, 1982. On July 23, 1982, the Applicant filed another application for approval of an increase in rates of approximately 17 percent to become effective January 1, 1983. This application was accepted as filed on July 29, 1982. Subsequently, the Applicant mailed a 'Notice of Application for Increased Telephone Rates' dated August 16, 1982, to each of its telephone customers. As a result of this notice, the Commission received approximately 145 customer subsections as well as 2 petitions signed by customers in Kapuskasing, Timmins, Schumacher and Iroquois Falls. In addition, Mr. J. Reid, Industrial Commissioner of the City of Timmins, provided both an oral and written presentation to the Commission.

Upon review of the evidence that had been filed, the Commission decided that a public financial hearing would be appropriate. Notices of the hearing to be held November 3 and 4, 1982 were placed in eight newspapers which are distributed in the territory served by the Applicant.

On October 22, 1982, the Commission received a copy of the restraint criteria applicable to the Administered Price Restraint Program. The program requires that administered prices, which include telephone rates regulated by the Commission, conform to the restraint criteria as set out by the Minister of Consumer and Commercial Relations. The Applicant was provided with a copy of the criteria approximately five days prior to the financial hearing. During the financial hearing the Applicant undertook to file certain information relevant to the restraint criteria. The hearing dealt primarily with other financial issues related to the rate application.

3.0 TEST YEAR

The Commission has employed a future test year for the purpose of determining the Applicant's additional revenue requirement. In the NTL JAN 80 rate application, a 1981 test year was used even though the rate application had been prepared during 1979. The risks associated with using a fully forecasted test year were recognized by the Commission in Order No. 3949 dated June 27, 1980;

> This risk is primarily related to the uncertainties of forecasts and the possibility that the firm may realize a return in excess of the allowed range. The Applicant argued, however, that the benefits of employing a future test year outweighed the risks of earning excessive returns and reasoned that the firm would experience a loss of credibility should substantial overruns occur.

The Applicant must be able to continue to assure the Commission that the forecasts employed are reasonable and that the methodology used in forecasting is sound. The use of a future test year for determining an additional revenue requirement requires, and will continue to require additional effort on the part of the Applicant. In this regard, the Commission notes the statement made by the Applicant in NTLJAN 80 Exhibit 2, Section 7, Page 4, when the use of a future test year was first proposed.

> It is recognized that the certainties included in current test year data must give way to uncertainties of forecasts and the possibility that rates may be established which would result in earnings above the allowed range. The Company believes that the benefits of using a future test year outweigh the possibility that excessive earnings might result. In the first place, the loss of credibility which would accrue to Northern Telephone Limited should substantial overruns occur would not be in its best interests. Secondly, with the permitted rate of return being determined in a range, there is room for some departure from forecasts before the limits are surpassed. Thirdly, the Commission through a regular reporting requirement, can monitor results closely and in the final analysis can order rate reductions and/or customer repayments.

It is important to note that "substantial overruns" or substantial variances are not only measured in the aggregate but are also examined by category. In this regard the Commission will continue to monitor results closely and suggests that the Applicant undertake this monitoring process both for inhouse purposes to enhance the sophistication and reliability of the forecasting techniques and to provide evidence of the accuracy of the forecasts in the context of a rate application.

For the purposes of this rate application, the Commission has accepted the Applicant's proposal to employ a 1983 test year in order to determine an additional requirement.

4.0 REVENUES

The Commission has accepted the Applicant's estimates of local service and miscellaneous operating revenues for the purpose of determining an additional revenue requirement in this rate application. However, the Commission has concerns over the Applicant's estimate of 1983 toll revenue and these are discussed in detail in section 4.1.

4.1 TOLL REVENUES

4.1.1 *Forecasting Methodology*

When the application was filed with the Commission in July 1982, 1983 toll revenues were forecasted based on the assumption of a toll rate increase effective January 17, 1983 for all long distance calls within Ontario and Quebec. The assumption was premised on Bell Canada's rate application before the Canadian Radio-television and Telecommunications Commission (CRTC). The Applicant provided evidence in reply to interrogatory OTSCO1AUG82-102 that Bell Canada application, if approved, would result in an average toll rate increase of 16 percent. It should be noted that the Applicant could not provide the Commission with any information as to how the 16 percent was calculated. The 1983 toll revenue forecast was also based on the assumption that the Ontario Northland Transportation Commission (ONTC) would simultaneously introduce its toll rate increase at the time it was to be introduced by Bell Canada. The Applicant also assumed that the requested toll rate increase of 16 percent would result in a message toll revenue increase of 11.3 percent. This assumption was not

based on work undertaken by the Applicant but from information received from Bell Canada. During the financial hearing of November 4, 1982, Mr. Cooper, witness for the Applicant, was unable to provide any explanation on the methodology used to calculate the estimated toll message increase of 11.3 percent.

Subsequent to the filing of the Applicant's rate application, the Governor General in Council amended CRTC Telecom Decision 81-15 allowing for a 6 percent Ontario-Quebec toll rate increase effective September 1, 1982, and a further 5 percent increase effective September 1, 1983. As a result, the Applicant filed revised estimates of 1983 and 1984 toll revenue as shown in Table 1.

TABLE 1

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATIONS

NTL LONG DISTANCE SERVICE REVENUE FORECASTS

	EXHIBIT 1 SECTION 3 APPENDIX 5 Original Forecast	REPLY OTSCO1AUG82 -103 Revised Forecast
1983	$8,882,000	$8,559,000
1984	9,385,000	9,201,000

The revised revenue estimates were based on the assumptions that the 6 percent toll rate increase effective September 1, 1982, would increase annual toll revenues by 4.5 percent. Similarly, the 5 percent toll rate increase effective September 1, 1983, would increase annual toll revenues by 3.9 percent. The Applicant identified the difference between the percentage rate increase and the percentage toll revenue increase as a "melt".

The calculation of the "melt" was undertaken by Bell Canada and not the Applicant. As a result the Applicant was not only unable to supply the calculation of the "melt" but was unable to provide the factors, information or details used in the calculation. During the financial hearing of November 4, 1982 it became apparent that the Applicant was unable to explain the underlying assumptions and methodology used to forecast the increase in toll revenue brought about by the toll rate increase effective September 1, 1982, and September 1, 1983. The Applicant simply explained that the "melt" was a result of a curtailment in the revenue per message in addition to the curtailment in messages of 1 percent. There is some merit to the assumption that an increase in toll rates will not result in an equal percentage increase in toll revenues. However, the application of this assumption to the Applicant's 1983 toll revenue forecast has caused the Commission some concern. The reply to interrogatory OTSCO1AUG 82-103 very clearly shows that as well as using the unsupported "melt" factor of 4.5 percent for 1982, and 3.9 percent for 1983, the Applicant also reduced the number of toll messages in the calculation of toll revenue. This metholodogy implies a double counting effect for price elastic effects which is not adequately explained by the Applicant.

For the 1983 toll revenue estimate this resulted in an adjustment of $160,000 to reflect the 1 percent curtailment in messages in addition to an adjustment of approximately $268,000 to reflect the Applicant's "melt". The Commission believes that the Applicant has double counted for the effect of any curtailment brought about by an increase in toll rates.

The methodology used by the Applicant in this rate application differs from that use in prior rate applications. Unfortunately, the introduction of a 1 percent factor to reduce the number of toll messages could not be supported by any evidence. In regard to the Commission's comments in section 3.0 of this Order and the appropriate use of a future test year, it should be emphasized again that estimates, particularly those based on judgement need to be evaluated and reviewed in light of actual results. The Commission will expect the Applicant to make comparisons of 1983 actual versus estimated total and growth toll revenue and toll messages when this information becomes available.

As note above, the Applicant used a slightly different methodology for forecasting toll revenues in prior rate applications. In the past, the Applicant has employed the Bell methodology to develop estimates of revenue curtailment brought about as a result of a toll rate increase. The Applicant could not provide any details of the calculation of revenue curtailment and expressed doubt as to whether it would be made available. However, the Applicant did express confidence that the Bell model was reliable and applicable to the Applicant's serving territory. The Commission understands and appreciates the difficulty of developing a sophisticated model for forecasting toll messages. At this time, the Commission is not recommending that the Applicant should attempt to develop such a model for its own use. However, if modelling procedures are borrowed from the Bell Canada and/or subjective decision-making is employed to forecast toll revenues, the Commission will require that the Applicant be prepared to explain and defend the methodology used in forecasting the test year.

From a strictly mechanical perspective, the evidence indicates that the NTL methodology results in double counting for the effect of the reduction in toll messages. However, despite the double counting and the subjective factors included in the forecast of 1983 toll revenue, the Commission will accept the Applicant's 1983 toll revenue forecast as reasonable with the exception of the adjustments explained in the following sections.

4.1.2 *Annualized Toll Revenue*

As noted in section 4.1.1 of this Order, the Applicant refiled 1983 toll revenue estimates to reflect the 6 percent toll rate increase effective September 1, 1982 and an additional 5 percent increase to become effective September 1, 1983. When the application was filed in July, 1982, the Applicant had anticipated a toll rate increase of 16 percent effective January 17, 1983. Had the 16 percent toll rate increase been approved for January 1983, the Applicant would have realized additional revenues for a 12 month period and an annualizing adjustment would not be necessary. Since the 5 percent increase will not become effective until September 1, 1983, the Applicant will realize only 4 months of additional revenues from toll. If no adjustment was made to annualize these revenues then rates set for local telephone service for 1983 would be excessive in subsequent periods, all other things being equal.

For this reason, the Commission annualizes in year changes which will have an impact on future periods and the 5 percent toll rate increase effective September 1, 1983 is one such change. Table 2 provides the calculation of this adjustment.

TABLE 2

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATIONS

COMMISSION ADJUSTMENT TO ANNUALIZE 1983 TOLL RATE INCREASE

Increase in regular gross toll revenue representing 4 months (Reply OTSCO1AUG 82-103)	$191,000
Additional annual toll revenues representing 12 months 191,000x(12/4)	573,000
Adjustment to 1983 gross toll revenue representing 8 months	$382,000
Less: ONTC Settlement (.54405x382,000)	207,827
Annualizing adjustment to 1983 net toll revenue	$174,173

4.1.3 *Trans-Canada and Canada-U.S. Toll Revenues*

The review of toll revenues in Section 4.1.1 of this Order dealt with Ontario-Quebec toll traffic only. This is, by far, the major source of the Applicant's toll revenue. In reply to interrogatory OTSCO1AUG82-103, Sheet 4 the Applicant estimates that a full 90 percent of the toll traffic is between points in Ontario and Quebec.

The toll rates for long distance calls made to points outside of Ontario and Quebec are covered by separate toll schedules. These rates, like the Ontario-Quebec rates have also been increased by 6 percent in 1982, and 5 percent in 1983. In the case of the Trans-Canada toll rates the increases become effective October 1, 1982 and 1983 and in the case of the Canada-U.S. rates the increases become effective October 18, 1982 and 1983. The Applicant has not taken these increases into account in any of the evidence filed with the Commission. Table 3 provides the Commission's estimate of the adjustment necessary to reflect 1983 additional revenues from Trans-Canada and Canada-U.S. toll traffic. In the Table below the Commission has used the impact of the Applicant's "melt" which was discussed in section 4.1.1.

TABLE 3

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATIONS

TRANS-CANADA AND U.S. TOLL REVENUES

1983

Regular Gross Toll Revenue	$16,145,000
Trans-Canada and Canada U.S. Toll portion	10%
	$ 1,614,500
Effect of Toll Rate Increase	
3.9% effective October 1983 (annualized)	62,966
Portion Retained 44.595%	$28,079

4.1.4 *Revised NTL/ONTC Toll Agreement*

During the analysis of the rate application and all the evidence filed in conjunction with it, the Applicant notified the Commission of a change in the toll agreement with ONTC. This notification came in the form of a letter dated December 23, 1982. The letter, signed by Mr. Cooper, informed the Commission that the initial calculation by the Applicant indicated an increase of $386,000 for 1983.

The Commission has not had the opportunity to examine the details of the revised agreement nor has the Applicant filed any additional information regarding the revised agreement. To date the Applicant has not filed the agreement for approval pursuant to subsection 96(1) of The Telephone Act.

During the processing of the rate application the Applicant was requested to explain to the Commission the Company's expectations for the effective date and revision to the retention factor. The retention factor is negotiated between the Applicant and ONTC, and determines the portions retained by each party of the total sent-paid and received-collect toll revenue billed to customers served by exchanges of NTL. In the Applicant's reply to the interrogatory received by the Commission on September 9, 1982, it was stated that there was no indication of a toll commission increase, therefore the Company could not state an effective date or revised retention factor. Notwithstanding the reply, the Applicant has been able to negotiate with ONTC during 1982 resulting in an increase in the toll commission and an increase in the Applicant's 1983 toll revenues. For the purposes of expediting the processing of this rate application, the Commission will accept the Applicant's estimated increase of $386,000 on 1983 toll revenue. It should also be noted that the retention factor used in Tables 2 and 3 do not reflect the new agreement but that the impact of the revised commission increase has been identified separately in Table 4.

4.1.5 *Summary of Toll Revenue Adjustments*

TABLE 4

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATIONS

SUMMARY OF TOLL REVENUE ADJUSTMENTS

1983

Effect of annualizing toll revenue (Table 2)	$174,173
Increase in Trans-Canada and Canada-U.S. toll revenues (Table 3)	28,079
Estimated effect of commission increase	386,000
	$588,252
Less: Effect of revised forecast (Table 1)	323,000
Total Adjustment	$265,252

In Table 9 of this Order the Commission has adjusted Other Expenses by $2,000 to reflect additional Uncollectibles and General Services and Licences Expense which may occur as a result of the total adjustments.

5.0 EXPENSES

5.1 Business Information System

In section 4 of the application, the Applicant describes the Business Information System (BIS) department as providing "a wide range of data processing services for the Telephone Operations such as customer records and billing, general ledger, accounts payable, payroll and construction system. The department also provides data processing services to outside clients such as toll and customer billing systems for other telephone companies, municipal tax billing and data services for the provincial government". It is this dual use of the BIS department which has raised issues in this rate application. In section 4 of the rate application, the Applicant had proposed to allocate 56.3 percent of the BIS department costs to the telephone operations, while the remaining 43.7 is allocated to outside clients for 1983. The comparable allocation in 1982 was 41.6 percent to the telephone operations, and 58.4 percent to outside clients. In fact the telephone operations has consistently been allocated 41 to 43 percent of the total BIS department costs since 1979. The increase to 56.3 percent in 1983 is the major reason for the $159,000 increase in BIS costs to the telephone operations.

Furthermore, the two-fold purpose of the BIS department (i.e. telephone operations and outside clients), give rise to another adjustment to telephone operation expenses. In section 4, Appendix 3, sheet 2, the Applicant has identified this adjustment as a data services function credit. This credit to the telephone operations is in recognition of the fact that some corporate overhead costs are related to the BIS department. Without this adjustment telephone customers would be paying rates to cover 100 percent of these corporate overhead costs even though some of the costs are created by or benefit the BIS department. In 1983 the data services function credit falls $40,000 to $91,000. Table 5 below shows the Applicant's BIS department costs and the data service function credit for 1982 and 1983.

TABLE 5

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
BIS DEPARTMENT COSTS

	1982		1983	
TOTAL BIS Dept. Costs excluding overhead costs	$1,168,500		$1,145,100	
Telephone Operations Percentage	41.6%		56.3%	
BIS Dept. Costs Allocated to Telephone Operations		$486,000		$644,600
Less: Data Service Function Credit:				
Total BIS Overhead Costs	224,700		207,200	
Outside Clients' Percentage	58.4%		43.7%	
Data Service Function Credit		$131,200		$ 90,500
Net BIS Dept. Costs Allocated to Telephone Operations		$354,800		$544,100
1983 Increase				$199,300
Percentage Increase				56.2%

Note: Due to the rounding of the Telephone Operations and the Outside Clients' Percentage, the products in Table 5 may appear to be incorrect.

The primary cause for the significant increase in BIS costs to the telephone operations can be traced to the anticipated loss of the Telebec Data Processing contract in 1983. The allocation of BIS costs to the telephone operations and outside clients is based on the relative proportions of total BIS Dept. usage, the relationship used to calculate the BIS dept. costs allocated to the telephone operations and outside clients can be shown as follows:

(1) $\frac{\textit{Telephone Operations Use BIS Dept.}}{\text{Total Use of BIS Dept.}}$ = portion of BIS Dept. costs allocated to telephone operations

(2) $\frac{\textit{Use of BIS Dept. for Outside Clients}}{\text{Total Use of BIS Dept.}}$ = portions of BIS Dept. costs allocated to outside clients

It is clear from the relationship described above, that a decrease in the total use of the BIS Dept. (demoninator) brought about by a loss of the Telebec Data Processing contract will *increase* the telephone operations portion in equation (1) and therefore increase the costs allocated to the telephone operations. This will happen despite the fact that the telephone operations use of the BIS Dept. has not changed.

When outside clients *increase* their use of the services provided by the BIS Dept. the costs allocated to the telephone operations will decrease but when outside clients *decrease* their use of the services provided by the BIS Dept. the costs allocated to the telephone operations will increase, as will happen in 1983 if the Applicant's proposal is accepted. If the later circumstance was taken to the extreme and all of the outside clients either cancelled or failed to renew contracts with NTL, then telephone customers, under the Applicant's methodology, would be required to pay rates to compensate for 100 percent of the BIS Dept. costs. The Commission is concerned over this methodology for a number of reasons:

- There is little or no incentive to acquire new outside clients for data processing services.
- The telephone customers are subject to 100 percent of the risks associated with this unregulated aspect of Northern Telephone Limited.
- Useage can be measured a number of different ways and therefore the Applicant's current methodology is arbitrary.
- Unused BIS Dept. capacity can be used for the telephone operations even though additional jobs may be cost effective and will result in increasingly larger proportions allocated to the telephone operations.

It should be noted that the method used by the Applicant to allocate BIS costs between the telephone operations and outside clients was developed by the Applicant. This is in contrast to the methodology used to calculate the cost of the BIS department in total. The latter methodology was developed by P. S. Ross and Partners in a reprt titled 'Northern Telephone Limited Cost Analysis of Internal Data Processing Operations' dated January 31, 1978. The Commission is not questioning the P S. Ross methodology of determining BIS costs but is reviewing the methodology used by the Applicant to allocate BIS costs between the telephone operations and outside clients.

It should also be noted that although the Commission has accepted the methodology used by the Applicant to allocate BIS Dept. costs between the telephone operations and outside clients, the Commission has not examined or approved of the Applicant's usage study. The Commission's comment from an earlier decision is appropriately repeated:

> The Commission invites the Company to provide a more detailed usage analysis of the BIS Department's facilities in subsequent applications . . . (Order No. 3731 dated June 23, 1978)

Based on evidence provided by the consultant for the Applicant, the Commission decided in Order No. 3731 simply to allocate 50 percent of the BIS Dept. costs to the telephone operations. In a subsequent rate application, the Applicant did in fact employ a usage study to allocate the BIS Dept. costs. As noted earlier, the Applicant determined that 42 percent of the costs were properly allocated to the telephone operations. The reduction from a 50 percent allocation used in Order No. 3731 to a 42 percent allocation resulted in a rate increase less than what would have been required had a 50 percent allocation been employed. However, the usage

study itself was not filed with, nor examined by the Commission although the Applicant did file certain summary schedules similar to those in section 4 of the present rate application. The fact remains that although the Commission has accepted the Applicant's allocation factors in recent rate applications, the usage study undertaken to determine the allocation factors has not been examined or approved by the Commission as a methodology acceptable for rate making purposes. In the current application BIS Dept. costs allocated to the telephone operations has increased from 42 percent to 56 percent. This increase will have a significant impact on rates despite the fact that the provision of telephone service has not been the cause of the increase in costs.

Therefore, for the purpose of determining an additional revenue requirement in this rate application the Commission will apply the allocation factors used for the 1982 allocation of BIS costs for the 1983 BIS costs. Although the Commission realizes that this approach is not ideal, it does have a number of advantages. The allocation factors are readily available and verifiable, the method provides some incentive for the Applicant to replace the lost Telebec Data Processing contract with other clients, unnecessary telephone operations data processing work will not be introduced to 'take up the slack' or to manipulate the allocation factors and finally, the method reduces the upward pressure on telephone rates brought about from the BIS Dept. costs.

Table 6 provides the revised calculation of the BIS Dept. cost allocated to the telephone operations for the purpose of determining an additional revenue requirement based upon a 1983 test year. The Commission will expect that the Applicant will investigate this problem in more detail and provide the Commission with viable alternatives which will not burden its telephone customers.

TABLE 6

NORTHERN TELEPHONE LIMITED
BUSINESS INFORMATION SYSTEM DEPARTMENT
COMMISSION ADJUSTMENT TO
BIS COSTS ALLOCATED TO THE TELEPHONE OPERATIONS

	Applicant		Commission	
TOTAL BIS Dept. Costs excluding overhead costs	$1,145,100		$1,145,100	
Telephone Operations Percentage	56.3%		41.6%	
BIS Dept. Costs Allocated to Telephone Operations		$644,600		$476,268
Less: Data Service Function Credit:				
Total BIS Overhead Costs	207,200		207,200	
Outside Clients' Percentage	43.7%		58.4%	
Data Service Function Credit		$ 90,500		$121,022
Net BIS Dept. Costs Allocated to Telephone Operations		$554,100		$355,246
Adjustment to:				
BIS Dept. Costs allocated to Telephone Operations				$(168,332)
Data Service Function Credit				$ 30,522

Note: Due to the rounding of the Telephone Operations and the Outside Clients' Percentage, the products in Table 5 may appear to be incorrect.

5.2 Wage and Salary Expense

Exhibit 26 was filed in response to a Commission request for additional information regarding 1983 wage and salary expense. On December 13, 1982, the Applicant submitted the information in confidence and the Commission has decided that Exhibit 26 is properly held confidential. The Exhibit provided the Applicant's revised forecast of 1983 wage and salary expense, and based on the information provided by the Applicant, the Commission has made an adjustment in Table 10 for the purpose of determining an additional revenue requirement.

5.3 Depreciation Expense

Due to the rate base adjustment to reflect the Commission's level of construction expenditures included in the rate base an adjustment is also required to depreciation expense. The Applicant's estimated 1983 composit depreciation rate is 5.86 percent and this rate has been employed to determine the adjustment of $1,000 to depreciation expense.

6.0 INCOME TAXES

For the purposes of determining an additional revenue requirement in section 11.0 of this Order, the Commission has used the Applicant's tax rate of 50.9 percent as provided by the Applicant in reply to interrogatory OTSCO1AUG82-603. It is also appropriate to note that in this Order, the Commission will use the Applicant's rate of .5 percent of additional gross revenues to reflect additional expense for general services and licences expense, and a rate of .5 percent of additional gross revenues to reflect additional uncollectibles.

7.0 RATE BASE

The Applicant has used the 1983 book value of average total capital based on the assumption that the proposed rates are *approved in full* and become effective January 1, 1983. When asked in interrogatory OTSC13AUG82-510 why this approach was appropriate the Applicant indicated that a rate base reflecting the full rate award sought allows the Company to provide a more reasonable and credible estimate of the 1983 financial results.

The answer seemed to imply that a rate base without taking the proposed rates into account would provide financial data which is not credible. It is the Commission's view that the purpose of the Additional Revenue Requirement Calculation is, as the name suggests, to calculate the additional revenues needed to satisfy the Applicant's financial requirement. During the financial hearing of November 4, 1982, this area was examined in more detail. Mr. Cooper, witness for the Applicant, suggested that a rate base which reflected the full effect of the proposed rate increase was preferable because that would be the way which third parties would measure 1983 financial results of the operation of the Company. It was not explained why it was necessary to present information to the Commission, for rate making purposes, on the same basis as the information provided to external users. The Applicant, by this time, must be aware of the approach determined by the Commission. In Order No. 4151 dated June 9, 1982, it is clear that the rate base is measured without rate relief and the additional revenue requirement approved in the Order was determined on that basis. In Order No. 3949 dated June 27, 1980, the Commission employed a 1981 test year with a rate base measured without rate relief.

In this rate application, the Commission is not pursuaded by the Applicant and continues to measure the rate base without rate relief.

It should be made clear that the Commission's method of calculating the rate base in no way dictates the form or content of the information provided by the Applicant to external information users such as lenders. Nevertheless, if the Applicant has substantive reasons for employing a rate base calculated with rates, the Commission is open and willing to hear such reasons in the context of any future rate application.

7.1 Working Capital

The Applicant's methodology of presenting the calculation of the rate base has been the cause of some confusion. In Exhibit 1, Section 8, Appendix 3, the Applicant shows working capital as one of the components of the rate base. 1983 working capital is provided under both assumptions of with full rate relief and without rates. Working capital with rates is included in the rate base used by the Applicant to calculate the additional revenue requirement. The presentation is confusing because section 7 of the application, titled Working Capital, provides 3 pages of calculations supporting working capital *without* rate relief. It was not until the the Commission specifically requested the Applicant to file the calculation of working capital without rate relief that the Commission was able to examine this component of the rate base. When questioned why the section in the application dealing with working capital assumed no rate relief, whereas the additional revenue requirement calculation assumed working capital with rate relief, Mr. Cooper witness for the Applicant, indicated that ". . . there has to be a starting point because we have to determine what would happen to the Company's operation if we don't have rates increased." However, Mr. Cooper also admitted that the working capital without rate relief calculation was not used in the additional revenue requirement calculation. It would have been helpful to the Commission in its analysis had the Applicant at least identified the working capital calculation in Exhibit 1, section 7, as being without rates. This important point of calculation was omitted entirely from the application.

The calculation of the rate base for a future test year is of critical importance and the Applicant should be fully prepared in future rate applications to justify and defend not only the methodology used to calculate the rate but also the format of the calculation.

7.2 Adjustment for Construction Program

In Section 8 of this Order the Commission has outlined the reasons for denying the proposed accounting refinements at this time. In Section 11 of this Order, the Commission has determined that the proper level of construction expenditures to be included for rate making purposes should be equal to $8,400,000. This level of construction expenditure does not include the effect of accounting refinements. In reply to interrogatory OTSC14DEC82-314 the Applicant has proposed $8,369,000 in construction expenditures, expressed in 1983 dollars and without accounting refinements. To adjust for the approved level of construction expenditures, the Commission has made an adjustment of $16,000 to reflect the difference between the approved and proposed level of 1983 average construction expenditures.

7.3 Calculation of Rate Base

Table 7 below provides the calculation of the 1983 rate base as provided by the Applicant and accepted by the Commission for the purpose of the calculation of the 1983 additional revenue requirement in Table 11.

TABLE 7

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATIONS

AVERAGE NET ASSET RATE BASE

1983

($000)

		Reply Interrogatory OTSC15SEPT82-913	Commission Adjustment	Revised
1.	Total Telephone Property	67,567	16	67,585
2.	Less: Accumulated Depreciation	21,449	1	21,450
3.	Net Telephone Property	46,120		46,135
4.	Materials and Supplies	629		629
5.	Working Capital	(1,554)		(1,554)
6.	Sub-Total	45,195		45,210
7.	Less: Deferred Taxes	8,009		8,009
8.	Average Total Capital	37,186		37,201

8.0 ACCOUNTING REFINEMENTS

The proposal for accounting refinements was first presented to the Commission in the NTL JAN 80 rate application. Essentially, it was the Applicant's proposal at that time, and is in the current rate application to expense more of the costs which are currently capitalized construction expenditures. For rate making the increase in reported expenses will create a higher additional revenue requirement. The accounting refinements effect the rate base simply because less of the cost of the construction program is allocated to the rate base and more of the cost is allocated to expenses.

The primary reason for expensing some of the costs which had been capitalized in the January 1980 rate application was the introduction of certain criteria which subsequently have been included in the Commission's Uniform System of Accounts (USOA). Section 2.22, Note K(a) of the USOA states:

> All overhead costs which vary with the level of construction activity shall be capitalized. These include overhead construction costs such as engineering, supervision, applicable administrative office expenses, relief and pensions, taxes, interest, and any other costs which vary indirectly with the level of construction. These costs shall be charged to particular jobs or items at the time the item of plant is retired.

and in Section 2.22, Note K(d),

> Those costs which relate to the general operation and administration of the business and which do not vary with the direct costs, shall be expenses in the year of occurrence

Nevertheless, the Commission is concerned about the impact of the introduction of accounting refinements in the manner proposed by the Applicant. In reply to interrogatory OTSC15SEPT82-913, the Applicant estimated that these accounting refinements would add an additional $291,000 to the revenue requirement. The refinements *alone* would require an average increase of 2.5 percent on those services subject to the rate application.

In the January 1980 rate application, the Applicant had originally proposed to "phase in" the accounting refinements over a period of six years. However, in the NTL JAN 80, Exhibit 11, rate application the Applicant recognized that the effect of implementing the Accounting Refinements over a six year period would have an undue impact on telephone subscribers' rates. In order to minimize the effect the Company decided to implement the refinements over a 10 year period instead of only 6 years. The Applicant has proposed to include the full effect of the accounting refinements in 1983. In the current rate application, customers would pay higher rates for the full impact of the accounting refinements commencing January 1, 1983, if the Applicant's proposal was accepted. Given the poor economic conditions of the Applicant's serving territory described in section 2 of the rate application, the introduction of accounting refinements at this time would only serve to add an additional burden on the Applicant's customers for no other reason than a change in accounting procedures. The Applicant's proposal to introduce the accounting refinements on a "flash cut" approach rather than a phase in approach further compounds the impact on telephone customers.

For the purposes of this rate application, the Commission concludes that the Applicant's proposed accounting refinements are entirely inappropriate at this time. Tables 10 and 11, used to calculate the Applicant's additional revenue requirement do not include any adjustments for accounting refinements.

9.0 RATE OF RETURN

9.1 Capital Structure

The capital structure weights to be applied to each source of financing are an important element in determining the allowed rate of return. The Commission has concluded in previous Orders that the appropriate capital structure to use for the telephone operations is equal to the test year estimated average capital structure of the Applicant without rate relief. (See section 7.0 of this Order.) The capital structure of the Applicant's total operations taken from the reply to interrogatory OTSC15SEP82-913 is presented in columns (a) and (b) of Table 8.

The dollar amounts of debt, preferred, and equity capital allocated to the telephone operations is presented in column (c) of Table 7. This is obtained by applying the Applicant's capital structure weight for each source of funds to the telephone operations rate base. This method ensures that the sum of the sources of financing for the telephone operations equals the measured rate base.

The existence of an investment division and a BIS division and the use of a net asset rate base for rate making requires that the Commission employ the capital structure weights of Northern Telephone Limited as an approximation of the capital structure of the telephone operations. The Commission is not pursuaded to accept that sources of financing can be identified for the exclusive use of specific divisions. Therefore, until there is a suitable change in the structure of the Applicant's operations, the Commission will continue to employ the capital structure weights of the total operations of Northern Telephone Limited to calculate the overall cost of debt and preferred equity of the telephone operations.

TABLE 8

TELEPHONE OPERATIONS

1983 AVERAGE CAPITAL STRUCTURE

	NTL Total Operations (a) ($000)	(b) (%)	Telephone Operations (c) ($000)
1. Total Debt	28,228	45.0	16,740
2. Preferred Equity	9,064	14.4	5,357
3. Common Equity	25,434	40.6	15,104
4. Total	62,726	100.0	37,201

9.2 Cost of Debt Capital

In Section 8 of the rate application, the Applicant listed average outstanding debt for 1983, the rates associated with each debt and the weighted cost of the long term debt. At the time the rate application was filed, the Applicant forecasted $4,281,000 in outstanding short term notes at a rate of 18.25 percent per annum. In July, 1982, when the application was filed, the prime interest lending rate average was 17.5 percent. At the time of the financial hearing commencing November 3, the interest rate had fallen to approximately 13.5 percent. These rates only reflect than interest rates at a specific point in time. However, these rates in addition to the observation that rates have fallen dramatically since the Applicant prepared the rate application, require recognition, in the context of this rate application. Without, in any way, attempting to forecast interest rates for 1983, the Commission has adjusted the Applicant's cost of short term notes downwards by 4 percentage points to 14.25 from 18.25 in recognition of the decrease in interest rates in recent months, and more specifically to reflect the decline rates from the time the application was filed to the time the application was heard. This adjustment results in a decrease in the embedded cost of long term debt from 11.18 percent to 10.57 percent. In Table 9, the Commission has also adjusted Interest Charges by $101,000 to reflect the change in interest rates.

9.3 Cost of Preferred Equity

The Commission will employ a cost of preferred equity of 6.09 as provided by the Applicant in section 8, Appendix 7.

9.4 Cost of Common Equity

In the rate application filed October 1981, the Applicant provided expert testimony and extensive evidence on the appropriate rate of return on common equity. At that time the Applicant proposed a range of 17.5 to 18.5 percent. The Commission determined that not only would a rate of return on equity in the range of 15.5 to 16.5 percent maintain the financial integrity of the Applicant but would be fair and reasonable considering the relatively secure business and financial environment of Applicant.

The current rate of application was prepared in accordance with that finding and the Applicant adopted 16.5 percent at the high end of the range for the additional revenue requirement calculation. Traditionally, the Commission employs the mid-point of the approved range. This approach not only offers an incentive to the Company to achieve the high end of the range, but also balances the interests of the Applicant and customers.

9.5 Allowed Range on Total Capital

TABLE 9

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATIONS

1983 COST OF CAPITAL

	Capital Structure Weights	Cost Rate	Weighted Cost
1. Total Debt	45.0	10.57	4.76
2. Preferred Equity	14.4	6.09	.88
3. Common Equity	40.6	15.5-16.5	6.29-.70
4. Total	100.0		11.93-12.34

The additional revenue requirement calculation is based on a rate of return on total capital of 12.14 which is the midpoint of the range.

10.0 REVENUE REQUIREMENT

The additional revenue requirement, for the purpose of this application, is based on a 1983 test year. The subject of test year and the Commission's findings with respect to this matter are presented in Section 3.0 of this Order.

Table 11 presents the calculation of the additional revenue requirement and Table 10 presents the estimated 1983 income statement reflecting the Applicant's submission and the Commission's adjustments.

Based on the findings in this Order and on the calculation of the additional revenue requirement in Table 11, the Commission concludes that the Applicant has an additional revenue requirement of $547,000 for the 1983 test year.

TABLE 10

($000) Except Lines 19 & 20

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATIONS

1983 INCOME STATEMENT

		Applicant Interrogatory OTSC15SEP82-913	Commission Adjustments	Commission Revised Income Statement
1.	Local Service	12,297		12,297
2.	Long Distance Service	8,882	265	9,147
3.	Miscellaneous Operating	1,539		1,539
4.	**Total Operating Revenues**	22,718		22,983
5.	Depreciation	3,897	1	3,898
6.	Customer Services:			
	(a) Maintenance	4,507		4,507
	(b) Sales	455		455
	(c) Commercial	1,319		1,319
	(d) Staff Budget and Results	281		281
7.	Traffic	186		186
8.	Other	6,339	(715)	5,624
9.	**Total Operating Expenses**	16,984		16,270
10.	**Net Operating Revenues**	5,734		6,713
11.	Income Taxes	1,966		2,517
12.	**Operating Income**	3,768		4,196
13.	Other Income	57		57
14.	**Net Income**	3,825		4,253
15.	Interest Charges	1,870	(101)	1,769
16.	**Net Income**	1,955		2,484
17.	Preferred Dividends	327		327
18.	**Net Income Available to Common Shareholders**	1,628		2,157
19.	Rate of Return on Average Common Equity	10.8%		14.3%
20.	Rate of Return on Average Total Capital	10.3%		11.4%
21.	Average Common Equity	15,078		15,104
22.	Average Total Capital	37,186		37,201

TABLE 11
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
1983 TEST YEAR
ADDITIONAL REVENUE REQUIREMENT

1.	Rate Base	37,201
2.	Allowed Rate of Return	12.14%
3.	Revenue Requirement before Expenses	4,516
4.	Total Income Available	4,253
5.	Additional Revenue Requirement before Taxes and Uncollectibles	263
6.	Allowance for additional Taxes and Uncollectibles	284
7.	Total Additional Revenue Requirement	547
8.	Average Rate Increase Required for Services Effected by the Application	4.6%

11.02 CONSTRUCTION PROGRAM

11.1 Historical Levels of Construction Expenditures

In Order No. 4151, dated June 9, 1982, the Commission expressed concern about the increase level of construction expenditures estimated for the 1982 to 1985 period. In particular, the Commission noted that the purchase and installation of digital switches in Timmins and the Tri-Town area resulted in extraordinary levels of expenditures in 1982 and 1984. The Commission, having reviewed the estimated construction program to 1985, expressed concern that the level of expenditures should return to more acceptable historical levels after that time. The concern expressed in Order No. 4151 is repeated below:

> The purchase and initial installation of a digital switch is not an ongoing expenditure and therefore it is expected that construction expenditures will decrease to a more normal level in 1985. The completion of the rural upgrade program in 1985 and the purchase and installation of the digital switches in Timmins and the Tri-Town area during 1982 and 1984 respectively should indicate that construction expenditures will resume to a level which is not a burden to the Applicant or to its customers.

As a result of the significantly high level of construction expenditures planned for the period 1982 to 1985, the Commission examined in detail the three major areas of construction expenditures identified as:

1. The rural upgrade program, which began in 1976 and which was scheduled for completion in 1985, is designed to provide a minimum level of four party service to all rural subscribers on multi party lines.

2. The installation of digital switches to replace electromechanical switching equipment. Eventually the network will consist of a number of small digital remote units connected to four large switching centres. The first of these four has been installed in Kapuskasing, the next two were scheduled for Timmins in 1982, and New Liskeard in 1984. The Applicant has not yet scheduled the fourth, smaller installation for Kirkland Lake. Where additional capacity has been required for growth, the Applicant has been installing digital equipment.

3. The switching modernization program is the third major area of construction expenditure. Under this program, the Applicant will complete the replacement of older technology switching equipment with digital equipment.

Table 12 provides the historical level of annual construction expenditures to 1980 and estimates to 1984 prepared by the Applicant in the October 1981 rate application. In both the NTL JAN 80 rate application and in the current application the Applicant proposed certain accounting refinements, which in essence, would have expensed certain costs which were capitalized. After a detailed analysis of the reasons for the Applicant's proposals the Commission denied the accounting refinements (Section 8). Consequently, Table 12, columns B and D, restates construction expenditures for the period 1979 to 1984 inclusive, to net out the effect of the accounting refinements. Table 12 also restates construction expenditures from current dollars to 1971 dollars. This permits a comparison of annual construction expenditures without the effect of inflation, and permits the identification of extraordinary expenditure items in certain years.

TABLE 12
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
CONSTRUCTION EXPENDITURES

Year	Current Dollars		1971 Dollars	
	With Accounting Refinements (A)	Without Accounting Refinements (B)	With Accounting Refinements (C)	Without Accounting Refinements (D)
1973	—	2,813	—	2,487
1974	—	4,071	—	3,252
1975	—	3,922	—	2,869
1976	—	5,353	—	3,607
1977	—	5,155	—	3,337
1978	—	4,232	—	2,542
1979	5,708	5,829	3,152	3,219
1980	5,759	5,900	2,914	2,986
1981*	6,819	7,015	3,121	3,211
1982*	8,502	8,768	3,507	3,617
1983*	7,477	7,927	2,817	2,987
1984*	9,702	10,369	3,357**	3,588

* *Estimated*
** *Calculated using: 9.2% over 1983.*

References:
NTLFEB77 - Exhibit 3, Appendix 9
NTLJAN80 - Exhibit 1, Section 5
NTLOCT81 - Exhibit 2, Section 5
NTLJUL82 - Exhibit 1, Section 6
Reply to OTSC14DEC82-314
Reply to OTSC19NOV81-331

TABLE 12
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
AVERAGE CONSTRUCTION EXPENDITURE EXPRESSED IN 1971 DOLLARS
WITHOUT ACCOUNTING REFINEMENTS

Period	Average Expenditure
1973 - 1980	$3,037
1981 - 1984	3,351

Table 12 above shows that construction expenditures for the 8 year period of 1973 to 1980 has been approximately $3,037,000 expressed in 1971 dollars. The average includes an extraordinary expenditure of $2,000,000 (current dollars), for the construction of the Timmins Building Complex in 1976 and 1977. There has been a substantial increase of $314,000 in average construction expenditures for the period 1981 to 1984 inclusive. The increase in average construction expenditures to $3,351,000 can be accounted for by the purchase of the large digital switches for Kapuskasing in 1981, Timmins in 1982, and New Liskeard in 1984.

It is important to note that the historical level of average expenditures of $3,037,000 includes the cost of outside plant work for the rural upgrade program. When the upgrade program commenced in 1976, the total cost was estimated at approximately $10,000,000 (current dollars), averaging $1,500,000 per year for the years 1982 to 1985 inclusive. After 1985 it was the Commission's expectation that the amount formerly budgeted for the upgrade program would be devoted to switching modernization. Under the digital program, it was the Applicant's intention to add digital lines at a rate of 1,800 per year until 1985 to keep pace with demand for telephone service. Beyond 1985 it was the Applicant's plan to add 3,000 lines per year for growth and modernization. Although 44,000 lines would be candidates for replacement in 1985, no cost estimates were provided for the conversation of 3,000 lines per year. Table 14 is a summary of the estimated cost of the Rural Program and the Digital Program as provided by the Applicant in reply to interrogatory OTSC19NOV81-331.

TABLE 14

($000)

NORTHERN TELEPHONE LIMITED

TELEPHONE OPERATION

PROGRAM CONSTRUCTION EXPENDITURES

Year	Rural Program	Digital Program
1977	396	—
1978	743	—
1979	1,156	285
1980	1,051	393
1981*	1,133	659
1982*	1,166	2,766
1983*	1,575	1,155
1984*	1,793	3,207
1985*	1,072	N/A

* Estimates
Source: Interrogatory OTSC19NOV81-331

The Commission observed, in Order No. 4151, dated June 9, 1981, that the plan to modernize switching at a rate of 3,000 lines per year could mean that the level of expenditures may not return to historical levels.

In Order No. 4151, dated June 9, 1981, the Commission expressed the following concern:

> The completion of the rural upgrade program in 1985 and the purchase and installation of the digital switches in Timmins and the Tri-Town area during 1982 and 1984 respectively, should indicate that construction expenditures will resume to a level which is not a burden to the Applicant or to its customers. However, after 1984 the Applicant plans to increase the rate of modernizing switching equipment to a level of 3,000 lines per year. As a result, total annual construction expenditures will not fall in 1985 but will be maintained at a level of eight to ten million dollars per year. The Commission is concerned over the level of expenditures proposed by the Applicant to modernize switching equipment.

The Applicant indicated that a range of $8 million to $10 million per year would be required, and the more likely was near the $8 million level. Any increase in the rate of modernization would increase the level of expenditures.

The view of the Commission was that the Applicant should review the rate of modernization to ensure that the level of construction expenditures will average $8 million per year in the period 1982 to 1986 inclusive, and not escalate to the $10 million level.

In calculating the rates required for the 1982 test year, the Commission therefore normalized the extraordinary expenditures in 1982 and 1984 and used $8 million for inclusion in the rate base. This amount was subject to some allowance for charges in estimates of inflation and growth. The Commission stated its intention to monitor the effect of the adjustment very closely and re-evaluate its effectiveness in future rate applications.

11.2 Revised Estimates

As a result of Order No. 4151, the Applicant revised its construction estimates as follows:

TABLE 15
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
COMPARATIVE ESTIMATES
(NO ACCOUNTING REFINEMENTS)

Current Dollars Year	NTL OCT81 (a)	NTL JUL 82 (b)
1981	7,015	7,204 (actual)
1982	8,768	8,061
1983	7,927	8,369
1984	10,369	8,602
1985	—	10,529

Source: Interrogatories OTSC14DEC82-314, 315; OTSC19NOV81-331.

The procedure used by the Applicant to set the levels of expenditures for 1982 to 1984 was to use $8 million on the assumption that no allowance would be made by the Commission for changes in the estimates for inflation or for growth. Order No. 4151 made it clear that this was not the case on page 26:

> For the purposes of rate making, the Commission will normalize the extraordinary expenditures for the purchase and installation of the large digital switches in 1982 and 1984. Therefore, for the period 1982 to 1986 the Commission will use annual construction expenditures of $8 million for inclusion in the rate base with some allowance for changes in inflation and growth estimates.

The Applicant submitted that the reference to "some allowance" was not sufficiently clear and consequently, made no allowance for changes in inflation or growth. In the Commission's view, such an approach is not realistic. If, for example, the rate of inflation should increase to a rate in excess of that estimated by the Applicant, and no adjustment was made to the $8 million included in the rate base, real construction expenditures, measured in 1971 dollars, would decrease.

The most significant changes brought about to the NTL JUL 82 construction program to bring it into conformance with Order No. 4151 were:

1982	Parts of the Rural Upgrade Program deferred to future years.	$ 416,000
	Part of the DMS100 installation in Timmins to be implemented in 1983.	$ 348,000
1983	The Kapuskasing Work Centre Complex project advanced from 1984	$ 300,000
	PBX installations which were not anticipated	$ 865,000

1984	Deferrel of the DMS10 in New Liskeard to 1985	$ 911,000
1985	Change DMS10 to DMS100 in New Liskeard	$2,351,000
1986	Rural Upgrades deferred from 1982-1985	$1,095,000

The estimates for the period 1982 to 1985 in constant dollars and with no accounting changes are now:

Year	($000)
1982	3,315
1983	3,153
1984	2,968
1985	3,333
Average	3,195

This level of $3.2 million compares with $3.0 million in actual results for the 1973-1980 period. The difference represents exceptional expenses in 1982 and 1985 for the two large digital installations.

11.3 1983 Test Year

In Order No. 4151 the construction estimates were set at $8 million for the purpose of calculating rates based on the 1982 test year estimates. The Commission has reviewed the changes in the Applicant's estimates and is now of the view that the level should be adjusted upwards to $8.4 million. This level will be used in the 1983 test year for rate calculations. The adjustment of $400,000 reflects the fact that the accounting changes sought by the Applicant have not been authorized at this time.

The Applicant has not revised the growth or the inflation estimates and consequently there will not be a further adjustment at this time to the estimated level of construction expenditures.

The Commission will use the $8.4 million level of expenditures normalized for the 1983-86 period and the Commission will re-evaluate its effectiveness in future rate applications and determine if further adjustments are required.

The adjustments would arise from a change in inflation or growth estimates. Any change in those estimates would be reviewed by the Commission, and if accepted, they would be used to revise the $8.4 million level. It should be noted that in the past, the Commission has accepted the Applicant's composite inflation estimates as presented.

The Commission will continue to monitor the level of construction expenditures and the related estimates, and the Commission expects that after the installation of the larger DMS switches, the level would return to the historical levels of $3.0 million in 1971 constant dollars.

11.4 Rural Program

The Commission has closely followed the progress of the Rural Upgrade Program which was to be completed in 1985. The Commission is now concerned with the revised schedule which will extend to 1986. This was done to reduce the overall level of expenditure in the 1982 to 1985 period and it resulted in the deferral of many projects, some of which have been subject to earlier deferrals.

Table 16 below shows the revisions to the Rural Upgrade Program since March 1981, and provides the actuals since 1976.

TABLE 16
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
RURAL UPGRADE PROGRAM

Estimate at March 30, 1981 (OTSC27JUN80 ORDER 3949 1(f)

Year	($000.)	Subscribers
1981	820.8	459
1982	1,082.6	555
1983	1,173.4	393
1984	1,173.4	433
1985	978.0	282
	5,227.9	2,122

Estimate at December 21, 1981 (OTSC19NOV81-701)

Year	($000.)	Subscribers
1981	1,023.2	258
1982	966.0	538
1983	1,465.2	508
1984	1,695.0	487
1985	907.3	255
	6,056.7	2,046

Estimate at July 7, 1982 (OTSC27JUN80 ORDER 3949 1(f)

Year	($000.)	Subscribers
1981 (actual)	989.2	225
1982	550.1	331
1983	1,321.2	338
1984	1,577.0	561
1985	1,015.2	302
1986	1,094.9	277
	6,547.6	2,084

TABLE 15: (Continued)

Estimate at September 9, 1982 (OTSC16AUG82-313 and Filing 1(a) July 23, 1982, further to Order No. 3949.

Year	($000)	Subscribers
1976 Actual	300.0	N/A
1977 Actual	396.0	281
1978 Actual	743.3	57
1979 Actual	1,156.4	750
1980 Actual	885.6	631
1981 Actual	989.2	225
1982 Estimate	550.1	331
1983 Estimate	1,321.2	388
1984 Estimate	1,577.0	561
1985 Estimate	1,015.0	302
1986 Estimate	1,094.9	277
	10,028.7	3,803

The Commission observes, however, that there is a major recession under way and that restraints are needed in these times. The Commission notes that the Applicant has reduced its estimate for construction in 1982, this has also been the case with many of the major telephone companies in Canada during 1982.

Chairman

ONTARIO TELEPHONE SERVICE COMMISSION

ORDER NO. 4221

Tuesday, the 26th day of April, A.D. 1983

BEFORE

V.W. Bielski, Q.C., Chairman,	)	IN THE MATTER of sections 6(1), 12 and 105 of The Telephone Act, (R.S.O. 1980, c.496),
R.D. Sloan, Vice Chairman, and	)	and
G. Klosler, Member.	)	IN THE MATTER of an application by North Frontenac Telephone Company Limited for a change in the rates for local telephone service.

HEARD AT:

Sharbot Lake, February 7, 1983.

APPEARANCES:

For: North Frontenac Telephone Company Limited -	- H.J. Schmidt, Secretary Treasurer.
For: Working Group on Telephone Rate Increases	- R. Greenstreet; - T. Smith; - R. Lovelace.
For: Individual Intervenors	- S. Pashkewicz; - B. Harris; - B. Warren.

WITNESSES:

For: North Frontenac Telephone Company Limited -	- H.J. Schmidt, Secretary Treasurer; - R. Pratt, Plant Manager; - C. Parks, Office Manager.
For: Working Group on Telephone Rate Increases	- G. Reid; - C. Pepper; - R. Miller; - J. Love; - F. Hollywood; - J. Raymo.

1.0 ORDER

1.1 UPON THE APPLICATION of North Frontenac Telephone Company Limited, hereinafter referred to as the Applicant, upon reading the said application and other material filed, and upon evidence presented during the hearing,

1.2 THE COMMISSION HEREBY DENIES, under and in pursuance of sections 6(1), 12, and 105 of The Telephone Act (R.S.O. 1980, c.496), for the Applicant, an increase in rates for local telephone service.

2.0 BACKGROUND

The Applicant filed an application for approval of changes in local telephone service rates and non-recurring service charges on August 5, 1982. The Applicant requested approval for an additional $32,246.40 in local service revenues based on a current 1982 test year. This amount would be generated by an average increase of 29% for residential and business services, and non-recurring service charges. As indicated in the application, the rate increase proposed was premised on the Applicant's desire to have a rate structure comparable to that in the neighbouring Bell Canada served areas. Further reasons became apparent during the Commission's review. These were to contribute towards the reduction of the deficit, the repayment of the shareholder's loan, and the paying of dividends.

On September 1, 1982, the Applicant mailed a Notice of Application to each customer which set out the present and proposed rates. Written interventions were to be filed with the Commission. The Commission, as a result of the notice, did receive 14 individual submissions and one petition with 327 individual signatures.

Notice of the Public Hearing to be held in Sharbot Lake on February 7, 1983, was placed in the Kingston Whig Standard on January 24 and January 31, 1983, and the Westport Rideau Valley Mirror on January 26 and February 2, 1983. The Hearing was held in the Township Hall, Sharbot Lake, on Monday, February 7th, 1983, at 8:00 p.m., wherein the Commission was able to hear matters in respect to both the service quality and the financial aspects.

The Commission's findings with respect to the financial aspects of the application are contained in Sections 3.0 to 8.0 of this Order.

3.0 TEST YEAR

The use of a test year for a revenue requirement calculation permits the Applicant and the Commission to focus on a set of financial data for a particular operating period adjusted for known changes.

The Applicant, in its application, utilized a current 1982 test year. The Commission, after reviewing the application and subsequent evidence filed, determined that a 1982 historic test year would better reflect the financial requirements of the Applicant. The Applicant's audited Financial Statements for the fiscal year ended November 30, 1982, indicated a net income of $49,883 after interest charges and income taxes. This compares to the amount shown in the application for the same period of $7,800[1]. The Commission, for the purpose of its review in this application, decided not to make adjustments to the 1982 Financial Results as reflected in the audited Financial Statements for the Applicant, as it was felt that any such changes would not affect its decision and would be more appropriately addressed in future submissions.

(1) Exhibit 2, Page 5, Line 13, Column D

4.0 RATE BASE

The Commission, generally, in its review of an application, and pursuant to section 12 of The Telephone Act is doing so as to:

> "...inquire whether the rates and tolls charged for the service rendered by a telephone system...are sufficient to pay the funded debt and interest accruing thereon and the cost of operation and maintenance and a reasonable return on **capital investment**, ...".

The Commission, for the purpose of this application, intends on its own volition to determine the invested capital normally provided in any general rate increase application.

The Commission also considered the Net Asset Rate Base Approach in trying to determine the most appropriate rate base. The information from the Financial Statements reflecting the telephone plant assets was not acceptable for determination of the rate base because of the inconsistent treatment of depreciation procedures and calculations. Consideration by the Commission of the possibility of utilizing the appraisal value of the telephone plant was similarly dismissed because this would have meant a significant departure from Commission policies.

Therefore, with the 1982 Financial Results providing the basis for the Commission's review (see Section 3.0) and utilizing the Invested Capital Rate Base Methodology, a rate base amount of $817,930 is determined as shown by Table I.

TABLE I:

North Frontenac Telephone Company Limited
Components of Invested Capital Rate Base
November 30, 1982

1. Long-Term Debt[2]	$174,250
2. Due to Shareholder[2]	581,273
3. Preferred Shares[2]	49,775
4. Common Shares[2]	15,770
5. Deficit[2]	(3,138)

Section 5.0 deals with the treatment of the Rate Base Component - Due to Shareholder, in the determination of the Rate of Return.

5.0 RATE OF RETURN

One of the major issues facing the Commission in this application was the treatment of the shareholder's loan as to whether it should be considered long-term debt or investment equity. Since there has been no indication of repayment of the shareholder's loan for a considerable period of time, the Commission has recognized, for regulatory purposes, this amount as an equity equivalent. Therefore, the Commission has determined that the amount indicated in Table I as Due to Shareholder ($581,273) to be equity, an approach not unfavorable to the Applicant. The Commission is of the view that a range of rate of return on equity of 16 to 18 percent is reasonable, and due to the size of the Applicant's operations, used 18 percent in its calculations. The resulting Capital Structure and costs are presented in Table II.

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2 North Frontenac Telephone Company Limited's, November 30, 1982 Audited Financial Statements.

3 Sum of items 2, 4 and 5 from Table I.

TABLE II:

North Frontenac Telephone Company Limited
Calculations of Cost of Capital as at
November 30, 1982

	Capital $	Structure %	Cost %	Weighted Cost %
Debt	$174,250	21.30	8.625	1.84
Preferred Equity	49,775	6.09	6.000	.37
Common Equity	593,905[3]	72.61	18.000	13.07
	$817,930	100.00		15.28

6.0 REVENUE REQUIREMENT

The calculation used by the Commission to determine whether or not additional revenue is required by the Applicant, and to what extent is shown in Table III.

TABLE III

North Frontenac Telephone Company Limited
Calculation of Revenue Requirement

1. Total Capital	$817,930[4]
2. Rate of Return	15.28%[5]
3. Total Income	$124,979
4. Total Income Without Relief	$150,227[6]
5. Additional Revenue Requirement	($25,248)

The negative amount shown for Additional Revenue Requirement indicates that increased rates are not warranted. It is this calculation and the related considerations that upheld the Commission's decision to deny any increase in local service rates.

Having regard to the requirements of section 12 of the Telephone Act, the Commission is satisfied that the current level of rates is sufficient to service the outstanding debt of the Company and provide a reasonable return on the deemed equity capital.

4 Section 4.0, Table I

5 Section 5.0, Table II

6 North Frontenac Telephone Company Limited's November 30, 1982 Audited Financial Statements - Net Income ($49,883); plus Interest on Long Term Debt - AEL MicroTel Limited ($15, 739); and Interest to H. J. Schmidt on Shareholder Loan ($84,605).

7.0 QUALITY OF SERVICE

The Commission having reviewed the written submissions of the intervenors and considered the comments put forth at the hearing, wishes to impress upon the Applicant its concerns regarding certain service problems that have arisen.

During the hearing the Commission heard from the Working Group on Telephone Rate Increases, a group formed by a number of North Frontenac subscribers to determine problems faced by subscribers, and as to why the dissatisfaction with the proposed rate increase. The Group's representative, Mr. R. Lovelace, directed questions to its witnesses to provide evidence of complaints being indicative of subscribers in general. The evidence presented by the intervenor's witnesses was supportive of the opening statement provided by the Working Group, that the quality of service was inadequate for the needs of the subscribers.

The Commission was pleased with response to the public notice and the proficient manner in which the intervenors deported themselves at the hearing. The questions directed to the Applicant's staff were to the point and allowed the hearing to proceed in a forthright manner.

In general, the concerns of the subscribers heard by the Commission are as follows:

- Problems of multi-party service;
- Noise/Static on the lines;
- Presence of crosstalk on multi-party lines;
- Inability to receive incoming calls;
- Applicant's policy with respect to disconnection;
- Incorrect billing;
- Poor equipment;
- Non-toll calling area too small;
- Excessive increase proposal in light of service provided.

The complaints regarding the delay in upgrading of service from multi-party, dialing problems, line static, other line related problems, and general problems related to the lack of privacy in the multi-party lines, must be addressed by the Applicant.

The Applicant is requested to review The Telephone Act and in particular those sections dealing with written notification to customers. Respecting the confidentiality of customer information, the Applicant is urged to endeavour to ensure closer scrutiny over the access to records and other information. The Applicant's staff should be cautioned about readily providing information concerning subscribers.

The Commission is concerned as to the absence of public relations by the Applicant with the customers and suggests that the Applicant extend a little more effort in its contact with its subscribers, by letting them know what work has been done, and what the plans are for the future.

The Applicant is further requested to keep the Commission informed of its undertakings in settling the complaints of its customers and of any future dialogue.

The Commission recognizes the Applicant's increased investment in construction expenditures that have taken place over the last several years, but directs the Applicant to review its construction program to ensure a proper combination of expenditures on modernization, upgrading, and maintaining takes places. The Applicant has indicated that its construction program will be filed with the Commission. This program will be monitored to ensure that the quality of service is maintained and the necessary upgrading undertaken.

8.0 COMMENT

The calculation in Section 6.0 of this Order shows that, based on a 1982 historic test year, the Applicant has no additional revenue requirement to be approved by the Commission.

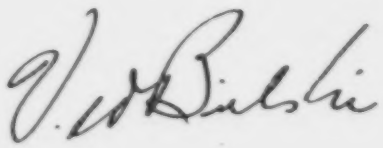
Notwithstanding this decision of the Commission, it should be noted that the Applicant has consistently misconstrued section 12 of the Telephone Act. The application filed by North Frontenac Telephone Company Limited, portrays a business predominantly funded by a unique form of debt with little or no equity capital investment, a financial phenomenon contrary to the normal process experienced by the Commission.

The Commission has given the Applicant every opportunity, during this application and in previous proceedings, to devise a procedure for determing a rate of return. In Order No. 3933, the Commission explained that certain evidence of indebtedness must be considered as long term debt. The Commission wishes again to emphasize that the Applicant should recognize that the Commission, on its own volition, and in the best interest of the Applicant, has formulated, for rate making purposes, a debt/equity structure in which the shareholder's loan was considered investment equity for the determination of a rate of return and an additional revenue requirement.

The main rationale of the Applicant with respect to rate increases to be comparable to Bell Canada is not sufficient reason for the approval of higher rates. The Commission must have regard for the financial requirements of the Company.

The Applicant should more closely review its financial information, particularly in the context of possible rate applications. The Applicant must also remain cognizant of the parameters within which the Commission functions with respect to the determination of additional revenue requirement.

In future applications filed with the Commission, if the Applicant continues to disregard the suggestions of the Commission to convert the shareholder's loan from long term debt to equity in the form of common shares, the likelihood of an additional revenue requirement will be very remote.



Chairman.

ONTARIO TELEPHONE SERVICE COMMISSION

ORDER NO. 4236

Wednesday, the 20th day of July, A.D. 1983

BEFORE

V. W. Bielski, Q.C.
Chairman,

D. Austin,
Member, and

M. H. Shecter
Member

IN THE MATTER of sections 6(1) 12 and 105 of The Telephone Act (R.S.O. 1980, c.496)

and

IN THE MATTER of an application by the Corporation of the City of Thunder Bay for approval to change the rates for local telephone service. Order No. 3221 dated October 7, 1974.

HEARD AT:

TORONTO, June 23, 1983.

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Table No.	Title
I	Statement of Revenue and Summary of Adjustments 1983 Test Year
II	Calculation of Net Asset Rate Base
III	Income Statement - 1983 Test Year
IV	Additional Revenue Requirement - 1983 Test Year

1.0 ORDER

1.1 UPON THE APPLICATION of the Corporation of the City of Thunder Bay, hereinafter referred to as the Applicant, for approval of change in rates for local telephone service, and upon reading the application and other material filed,

1.2 THE COMMISSION HEREBY AUTHORIZES, under and in pursuance of sections 6(1), 12 and 105 of The Telephone Act (R.S.O. 1980, c.496), the Applicant to increase local service rates to generate additional annual revenues of $460,044. The new rates will be based upon the estimated average revenue producing units in service during 1983.

1.3 THE COMMISSION HEREBY ORDERS that the local service rates and non-recurring service charges in accordance with section 10.0 of this Order, to become effective on or after August 1, 1983.

1.4 THE COMMISSION FURTHER ORDERS that the following conditions must be met before the non-recurring service charge, as stated in item 10.6, Appendix A, Section XII of this Order, may be applied.

When a customer contacts the repair office, the Applicant must:

1. Determine whether or not the customer provides his own terminal equipment.
2. Inform the customer of the terms and conditions applicable to "trouble found in customer provided equipment visit" charge and quoting the particular tariff as stated in item 10.6, Appendix A, Section XII of this Order.

2.0 BACKGROUND

The Applicant filed an application for approval fo changes in local telephone service rates and non-recurring service charges on February 2, 1983. The application requested approval for an additional $460,044 in local service revenues based on a 1983 test year. This amount would be generated by an increase of 5.0% for residential and business services and non-recurring service charges.

On April 29, 1983, the Applicant mailed a Notice of Application to each customer which set out the present and proposed rates. Written interventions were to be filed with the Commission on or before May 31, 1983. The Commission received three written submissions.

Due to the number of people responding to the Public Notice, and the financial material filed by the Applicant, both with the application and in response to the interrogatories, the Commission decided that neither a Field Hearing nor a Financial Hearing was necessary. The Commission directed the Applicant to respond to the three individual written submissions.

The Commission's findings with respect to the financial aspects of the application are contained in sections 3.0 to 9.0 of this Order.

3.0 TEST YEAR

The Commission has employed a future test year for the purpose of determining the Applicant's revenue requirement.

When the application was filed in February, the Applicant proposed the use of a 1983 future test year, based on calculation determined from 1981 historical information and estimates made in late 1982.

The Commission in its Order No. 4153 recognized the rinks associated with using a fully forecasted test year, and expressed its concerns:

> The risk associated with the use of a future test year is primarily related to the uncertainties of forecasts and the possibility that the additional revenue approved may not reflect the actual additional revenue required. Furthermore, the Commission is concerned that the telephone subscriber not be penalized by unreasonably high rates brought about by inaccurate forecasts by the Applicant. Therefore, the Commission must be convinced that the Applicant has the ability to make reasonably accurate estimates for future periods, thus reducing the risk.

The Applicant must be able to continue to assure the Commission that the forecasts employed are reasonable and that the methodology used in forecasting is sound. The use of a future test year for determining an additional revenue requirement requires, and will require a constant effort on the part of the Applicant.

The Commission will continue to monitor actual results closely and suggests that the Applicant follow a similar process in order to maintain the sophistication and reliability of its forecasting techniques and to be able to provide evidence of the accuracy of the forecasts in the context of a rate application.

For the purposes of this rate application, the Commission has accepted the Applicant's proposal to employ a 1983 test year in order to determine an additional revenue requirement.

4.0 REVENUES

4.1 Local Service Revenue

The Applicant based its calculation of local service revenue on total telephones of 100,824.[1] However, the Applicant in its response interrogatory OTSC30MAR83-801 identified a revised number for telephones of 102,507, an increase of 1,683 telephones. Using the same percentages and average revenue per telephone for Residential and Business telephones as the Applicant,[1] results in separating the increase into 1,055 Residential, and 628 Business, with average revenue each at $47.71 and $155.39 respectively, and an increase in local service revenue of $147,919.

4.2 Toll Revenue

Annualizing the toll price increase of 5%[2] increases toll revenue by $122,663 and when added to the Applicant's revised toll service revenue of $4,581,361[3] results in a new total for toll service revenue of $4,704,024, requiring a Commission adjustment of $352,663.

4.3 Summary of Adjustments to Revenue

Table I provides a summary of the adjustments discussed in Sections 4.1, 4.2 and in Section 5.2.

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(1) Exhibit 4 - Summary of Financial Facts - page 5.
(2) Exhibit 4 - Toll Compensation Payment Calculation.
(3) Interrogatory OTSC30MAR83-801(a) Rate Application, Page 5, Line 2, Column E.

TABLE I

**Statement of Revenue and
Summary of Adjustments 1983 Test Year**

Local Service	8,813,376	147,919[4]	8,961,295
Toll Service	4,351,361	352,663[5]	4,704,024
Coin Telephone	320,436		320,436
Other Operating	2,770,100		2,770,100
Non-Recurring Service	569,928		569,928
Other Income	122,012		122,012
Less: Uncollectibles	(225,000)	85,000[6]	(140,000)
	16,722,213	585,582	17,307,795

5.0 EXPENSES

5.1 Operating Expenses

The Commission has examined operating expenses for the 1983 test year and has required the Applicant to provide additional information regarding some items. As a result of this analysis, and for the purpose of determining an additional revenue requirement, operating expenses are found acceptable with the uncollectible revenue and gross receipts taxes.

5.2 Uncollectible Revenue

The Commission accpets the current estimated write-off of uncollectible accounts of $150,000 and the corresponding recovery estimate of $10,000 as identified in the Applicant's response to Interrogatory OTSC30MAR83-112. Therefore, the Applicant's original estimate of $225,000 is revised to the netted amount of $14,000 to reflect the most current estimate available.

5.3 Gross Receipts Taxes

The adjustments to revenue, as summarized in Setion 4.3, also requires a compensating adjustment to gross receipts taxes. Therefore, the Commission has made an allowance of $29,300 which is approximately 5% of the total revenue adjustments. When added to the difference between the calculated 1983 liability amount of $635,827 and the original estimate of the application of $625,000 ($10,827), the total adjustment will be $40,127.

5.4 Depreciation Expense

The depreciation expense of $3,023,995, revised to reflect 1982 actual construction expnditures, as indicated by response to Commission Interrogatory OTSC30-MAR83-801, was determined in the same manner as was developed in Order No. 4153. This requires an increase in depreciation expense of $4,168. The construction program for the Applicant has been estimated at $7,156,000. These amounts have been accepted by the Commission for use in this application.

[4] Section 4.1;
[5] Section 4.2;
[6] Section 5.2.

6.0 RATE BASE

6.1 Total Telephone Property

A value for the Total Telephone Property as at the end of the 1983 Test Year has been accepted by the Commission as established at $67,697,426 with a corresponding accumulated depreciation amount of $28,005,889. The Applicant again has followed the Commission format of Order No. 4153.

6.2 Working Capital

The Commission has applied the financial statement method of calculating the working capital allowance in arriving at the appropriate amount for the Applicant. For the submitted 1983 test year this amounts to ($451,304), inclusive of materials and supplies as identified by the Applicant's response to OTSC30MAR83-801.

6.3 Calculation of Rate Base

Table II provides the calculation of the Applicant's net asset rate base for the 1983 test year.

TABLE II:

Calculation of Net Asset Rate Base

1.	Total Telephone Property	$67,697,426 [7]
2.	Less: Accumulated Depreciation	28,005,889 [8]
3.	Net Telephone Property	39,691,537
4.	Working Capital	(451,304) [9]
5.	Total Capital	$39,240,233

7.0 RATE OF RETURN/REVENUE REQUIREMENT

Table III presents the Applicant's 1983 projected income statement, the Commission's adjustments and the revised income statement, indicating that Total Income for the Applicant before interest charges would be $2,873,707.

[7] Section 6.1;
[8] Section 6.1;
[9] Section 6.2.

TABLE III:

Income Statement - 1983 Test Year

		Exhibit 2	Commission Adjustments	Revised Income Statement
1.	Local Service	$8,813,376	$14,919[10]	$8,961,295
2.	Long Distance Service	4,351,361	352,663[10]	4,704,024
3.	Miscellaneous Service	3,557,476	85,000[10]	3,642,476
4.	**Total Operating Revenue**	$16,722,213	$585,582	$17,307,795
5.	Depreciation	$3,019,827	$4,168[11]	$3,023,995
6.	Maintenance	4,423,700		4,423,700
7.	Traffic	113,106		113,106
8.	Marketing and Commercial	1,505,120		1,505,120
9.	General Office	2,841,440		2,841,440
10.	Other	653,400		653,400
11.	Directory Expense	1,042,000		1,042,000
12.	Gross Receipts	625,000	40,127[12]	665,127
13.	Other Taxes	166,200		166,200
14.	**Total Operating Expenses**	$14,389,793	$ 44,295	$14,434,088
15.	Total Income	$ 2,332,420	$541,287	$2,873,707
16.	Interest Charges	375,600		375,600
17.	**Net Income**	$ 1,956,820	$541,287	$2,498,107

7.0 RATE OF RETURN/REVENUE REQUIREMENT (Cont'd)

In Order No. 4153, a 12.2% return on total capital was determined to be reasonable and acceptable by the Commission.

Table IV provides the calculation for an additional revenue requirement based on the 12.2% return on total capital and the other parameters as developed in earlier sections of this Order.

TABLE IV:

1983 TEST YEAR
ADDITIONAL REVENUE REQUIREMENT

1.	Rate Base	$39,240,233 [13]
2.	Allowed Rate of Return	12.2%
3.	Total Income	4,787,308
4.	Total Income without Relief	2,873,707 [14]
5.	Additional Revenue Requirement	1,913,601
6.	Additional taxes	89,749 [15]
7.	Total Additional Revenue Requirement	2,003,349
8.	Average Rate Increase	21.0%

[10] Section 4.3;
[11] Section 5.4;
[12] Section 5.3.
[13] Section 6.3;
[14] Section 7.0;
[15] Calculated for Gross Receipt Taxes based on Local Service Revenues only.

It is seen that the Applicant would have to increase rates on an average of 21.0% to achieve a 12.2% return on total capital. The Applicant's revenue requirement request of $460,044 based on a 5.0% average increase on rates, will generate a 8.5% return on capital as adjusted by the Commission.

The Commission accepts the Applicant's decision for additional revenue which is consistent with the restraint guidelines of the Ontario Government.

8.0 QUALITY OF SERVICE

During 1982 no complaints of the Applicant's customers were filed with the Commission. The Commission is pleased with the continued effort by the Applicant to complete the upgrading of service from multi-party to 4-party by the end of 1983.

The Commission is also satisfied with the direction of the Applicant's digital conversion and suggests that the Applicant continue to review the needs of the subscribers in conjunction with its financial viability.

The Commission wishes to be further informed as to the results of the joint study with Bell with respect to updating the 1978 study for determining the cost of providing E.A.S. service to the Pass Lake, Cloud Bay and Conmee/Kaministiquia areas.

9.0 COMMENT

In Section 1.0 of the Order, the Commission approved the final rate structure as proposed by the Applicant.

Section 7.0 of the Order indicated that to maintain a 12.2% return on total capital rates would have to rise by 21.0%. The adherence to the Ontario Inflation Restraint Program by the Applicant's 5.0% average rate increase established an 8.5% return after Commission adjustments.

The Commission is satisfied with the effort of the Applicant in following the methodology for determining its revenue requirement as was established by Order No. 4153. It is hoped that with the inception of the Uniform System of Accounts that the results can be further refined.

10.0 RATES

10.1 Basic Monthly Exchange Rates

(a) City of Thunder Bay Zone "A" map TBT57-73 (Appendix B attached).

	Business	Residence
Individual line	$11.20	$5.25
Two-party line	8.35	3.95
Four-party line	6.90	3.55
Trunk line	14.00	6.55

(b) Rural Thunder Bay Zone "B", roughly a 5 mile band around the City of Thunder Bay and the Village of Kakabeka Falls as defined by maps TBT58-73, TBT59-73 and TBT66-73 (Appendix B attached).

	Business	Residence
Individual line	$15.35	$7.30
Two-party line	12.60	5.95
Four-party line	9.80	4.65
Multi-party line	6.80	3.30
Trunk line	18.15	8.55

No increases in Multi-party line rates have been approved in this application.

(c) Rural Thunder Bay Zone "C", all rural areas served by Thunder Bay Telephone, roughly outside the 5 mile band as defined in Zone "B":, which includes the townships of Pearson, Gillies, O'Connor, Marks, Lybster, Fraleigh, Strange and part of Conmee as defined specifically by maps TBT60-73, TBT61-73, TBT62-73, TBT63-73 and TBT64-73. (Appendix B attached.)

	Business	Residence
Individual line	$19.70	$9.20
Two-party line	16.75	7.95
Four-party line	12.60	5.95
Multi-party line	9.05	4.35
Trunk line	22.35	10.55

No increases in Multi-party line rates have been approved in this application.

Where any of the boundary lines are shown along a road, both sides of the road will be defined in the lesser area. (400 ft. from centre of the road.)

10.2 EXTENSION TELEPHONES

Class of Service:	Monthly Rate
Business - all zones	$2.10
Residence - all zones	1.50
PBX	
Manual	2.10
Dial Systems - Step-by-step (including dial station line terminal)	3.25
Dial Systems - Common control (minimum monthly charge is 21 extensions)	7.80
Dial Systems - Electronic (minimum monthly charge is 35 extensions)	7.80
PBX Hotel-Motel and Hospitals (rooms)	
Step-by-step	2.70
Common control (minimum charge 21 locals)	3.20
Electronic (minimum charge 35 locals)	3.20

10.3 NON-RECURRING SERVICE CHARGES

Business Service:
Primary Exchange Service - to provide a telephone and/or line:

	Service Charge
Central Office line, including one telephone, each	$42.75
Party line service, including one telephone, each	42.75
Trunk line, each	42.75
Take over a working main, PBX, or order trunk service (change of name)	14.50
To extend a Central Office line or trunk line to an answering board	18.75
Reconnection of temporary suspension of service	18.75
Restoration of service - restoration of each main service suspended for violation of regulations and/or non-payment of account, without termination of service	18.75

Extension telephones - to provide an extension telephone or PBX extension:

	Service Charge
Extension telephone, each	$22.50
PBX extension line including one telephone, each	22.50
PBX extension in excess of one for each line	22.50
Off-premises extension (within same wire centre) Business or Residence	22.50

Residence Service:

	Service Charge
Primary Exchange Service - provide one or more Central Office lines, main telephones or trunk lines, each	$25.75
As above, with telephone equipment in place and no premise visit required	18.75
On a customer initiated request for a telephone change or installation of an extension, other work completed on an existing telephone during the same visit, will be charged at one half of the normal service connection charge, each	11.25
Taking over working main service (change of name)	8.25
Reconnection of temporary suspension of service	18.75

Restoration of service - restoration of each main service suspended for violation of regulations and/or non-payment of account, without termination of service	18.75
Extension telephones - provide one or more extension telephones including telephone, each	22.50
For other work performed on a customer's premises, each unit	22.50

When first extension is installed at the same time as the main service. The S.C.C. does not apply to the extension. Additional extensions installed at this time will be at half the regular S.C.C. All zones.

SERVICE CHARGE (Teladapt - Jack location) Phones picked up by the customer.

Provide one Central Office line, main telephone and any number of extensions (quantity of telephones up to the number of jacks in place)	18.75
Transfer of main telephone service and any number of extensions to a teladapt jacked location (quantity of telephones up to the number of jacks in place)	18.75
Customer with jacks visit "phone store" to add or change phones	8.25
Termination of full or partial service - telephone set	
Returned credit:	
- Main telephone	5.00
- Each telephone	2.50

(Credit to be allowed on the final billing.)

Other Work (Residence or Business):	**Service Charge**
Change of telephone instrument equipment and/or facilities. To change from one telephone instrument to another at customer's request	$22.50
Change of location on same premises, each telephone	22.50
Miscellaneous equipment for which there is no service charge	22.50
Change of extension telephone from one main telephone line to another, each	22.50
Change of PBX extension line from restricted to unrestricted or vice-versa, each	22.50
Change of one termination to another, each	22.50

When re-arranging existing lines on existing push-button telephones, use the following formula: "Add up the lines worked on, then the telephones worked on and apply charge to the lower of the two." This formula is to be used in the following situations:

a) Extending existing lines or inter-communicating circuits to existing push-button telephones;
b) Removing terminations of lines or inter-communicating circuits from certain push-button telephones while retaining terminations on other push-button telephones;
c) Changing dial codes of dial or link inter-communicating circuits; each 22.50

Change of Central Office line, trunk line or Wats Access Line from one answering board terminal to another; each 22.50

Change of telephone number at the customer's request 18.75

Traffic studies requested by customers (2 per year, gratis) maximum each study 2 weeks, all other studies extra charge will apply). Normal work week Monday to Friday 42.75

Directory listing changes at customers request:

Primary listing:	Business (See NOTE 1)	14.50
	Residence (See NOTES 1 & 2)	8.25
One or more Extra Listings in a Primary listing:	Business (See NOTE 1)	14.50
	Residence (See NOTE 1)	8.25

10.4 DIRECTORY LISTINGS

		Service Charge
Extra listings:	Business	$0.55
	Residence	0.50
	Non-Published Service	1.25
	Joint User	3.95

10.5 COIN TELEPHONES

Initial charge for coin telephone call .25

10.6 AUXILIARY SERVICES

Monthly charges and service connection charges for auxiliary services and equipment are listed in Appendix A of this Order.

NOTE 1: If Primary and Extra Listings are changed at the same time, only one service charge will apply.

NOTE 2. Service Charge will not apply if listing change is requested due to a deceased spouse.

APPENDIX A

SECTION I:

BASIC SERVICE	MONTHLY RATE
Toll Denial Unit:	
Business and Residential, per telephone	$4.15
Toll Denial:	
Business and Residential, per line	1.65
Short Term Telephone:	
(See NOTE 1) All Zones	
Temporary Suspension of Service (T.S.S.):	
All Zones Half Monthly Regular Rate	
Digipulse Service per line (except Key System - PBX-PABX):	
Business - each	3.90
Residence - each	2.65
Touch-Tone Service per line:	
Business - each	3.90
Residence - each	2.65
Off Premises Extensions:	
(See Note 2) All Zones.	
Answering Service Lines:	
(See NOTE 2) All Zones.	

NOTE 1: Two (2) months minimum charge, plus S.C.C.

NOTE 2: Apply local mileage charges and regular extension rate if

SECTION V: PRIVATE BRANCH EXCHANGE SERVICE

CLASS OF SERVICE	MONTHLY RATE	SERVICE CONNECTION CHARGE
Manual PBX Systems:		
Cordless switchboard, each position		
No. 507B	$25.35	$92.75
No. 555 - capacity 60 extension lines	40.00	107.25
- capacity 120 extension lines	55.35	107.25
Dial PBX Systems:		
No. 701 or 740 attendant's position, each		
No. 552A (Cord Non-Multiple)	55.35	322.25
No. 552D or 605A (Cord Multiple)	70.65	322.25
No. 607A (Cord Multiple)	153.65	322.25
No. 608 (Cord Multiple)	115.30	322.25
No. 508 (Cordless)	107.65	322.25
Dial Equipment:		
Selectors, connectors and selector connectors	6.50	(See NOTE 1)
Dial station line terminal, each	1.15	(See NOTE 1)
Common equipment - 2 digit system	84.55	(See NOTE 1)
- systems of 3 or more digits	115.30	(See NOTE 1)
Switchboard Consoles - Cordless:		
1 - 50 lines	$20.75	$150.75
Over 50 lines	28.00	226.00
Special Console (i.e. 4A)	53.75	268.75
Switching Equipment (Common Control):		
1 - 50 lines	30.75	752.75
Each additional 50 lines	30.75	752.75
Touch-tone feature	38.40	215.25

NOTE 1: SCC are based on units. Units are computed by adding dial station terminals, selectors, connectors, and selector-connectors and the charges are as follows:

TWO DIGIT SYSTEM:	- 60 units or less, each	$913.75
	- additional 10 units or less	150.75
THREE DIGIT SYSTEM:	-1 - 100 units, each	32.25
	1 - 200 units, each	25.75
	1 - 300 units, each	22.50
	1 - 400 units, each	20.00
	Over 400 units, each	18.00

SECTION V: PRIVATE BRANCH EXCHANGE SERVICE (Cont'd)

CLASS OF SERVICE	MONTHLY RATE	SERVICE CONNECTION CHARGE
Switching Equipment (Electronic):		
1 - 50 lines	30.75	537.50
Each additional 50 lines	30.75	215.25
Touch-tone feature	38.40	215.25
Telephones equipped for touch-tone calling	1.25	22.50
Telephones equipped for digipulse	3.90	22.50
Additional Features PBX Systems:		
Busy lamps field, each unit 50 - (common control)	9.20	92.75
Busy lamps field, each unit 50 - (electronic)	12.35	92.75
Dial Access terminal paging	4.65	22.50
Night answering arrangement	3.45	22.50
Tie Trunk Terminal, each		
- Manual	4.15	22.50
- Outgoing	8.35	22.50
- Incoming	16.75	22.50
- Outgoing & Incoming Dial	20.90	22.50
- Tandem Operation	16.75	92.75
Emergency power - common control	32.65	114.25
Emergency power - electronic	103.65	114.25
Executive ringback - (SG-1 or SG1A)	13.65	22.50
Toll restriction or denial, each trunk	5.00	22.50
Toll restriction or denial of locals, (electronic)	6.00	22.50
Dial PBX Dictation - Recording Terminal:		
When provided with a SxS PBX system, each	$22.35	$22.50
When provided with other dial PBX systems, each	37.75	22.50
Dictation - recording attendant's hand telephone, each	2.10	22.50
Conference Equipment		
Manual Conference Equipment:		
5 line capacity	8.35	22.50
Dial Conference Equipment:		
5 line capacity (SxS and common control)	5.55	22.50
10 line capacity (SxS and common control)	11.20	22.50
5 line capacity (electronic)	13.30	22.50

SECTION V: PRIVATE BRANCH EXCHANGE SERVICE (Cont'd)

CLASS OF SERVICE	MONTHLY RATE	SERVICE CONNECTION CHARGE
Arrangements for Night and Holiday Service:		
Bridging connection, each	4.15	22.50
Night cord with 3 plug ends	.35	22.50
Night cord with 4 plug ends	.75	22.50
Night cord with 5 plug ends	1.05	22.50

SECTION VI

CLASS OF SERVICE	MONTHLY RATE	SERVICE CONNECTION CHARGE
Hotel-Motel and Hospital (Rooms Only) Private Branch Exchange Services:		
Regular rates and charges apply for switchboards and switching equipment. Trunk lines (See Basic Rates).		
Telephones equipped for touch-tone calling (NOTE 1)	$1.25	$22.50
Telephones equipped for digipulse dialing (NOTE 1)	3.90	22.50
Single digit dial terminal	4.65	76.50
Message Register:		
Cumulative type, each	.40	
Reset type, each	.70	
Common equipment, (each group of 50)	89.50	114.25
Message Waiting:		
Each telephone	.90	
Common equipment	23.20	114.25
Call Answering Board:		
Position equipped for 1 - 40 lines	53.75	92.75
Position equipped for 41 - 100 lines	70.65	107.50
Concentrator Identifier Equipment:		
Concentrator identifier equipment of 50 lines or 100 line capacity	209.60	2,752.75
Bridging charge for the connection of service with concentrator, each	2.10	

NOTE 1: S.C.C. does not apply on original installation or when other work is done on set.

SECTION VII

ORDER TURRET SERVICE	MONTHLY RATE	SERVICE CONNECTION CHARGE
Automatic Call Distributor Systems:		
Model 40:		
Attendants's position, each	$ 8.35	$114.25
Common equipment	586.80	335.50
Register equipment	33.60	22.50
Night announcement equipment	14.00	68.75
Delayed announcement equipment	90.70	42.75
Model 200:		
Attendant's position, each	8.35	114.25
Common equipment - 20 positions or less	377.20	197.75
Common equipment - each additional 10 positions	125.75	75.00
Delayed Announcement Feature:		
Common Equipment:		
- 36 Trunk lines or less	67.05	75.00
- More than 36 Trunk lines	146.75	152.75
- Each Trunk line equipped for delayed announcement	2.15	22.50
Transfer Feature:		
- 20 positions or less	28.00	22.50
- Each additional 10 positions	6.95	22.50
Monitor Equipment †B Type	14.00	967.50
No. 4 Order Turret:		
- Each Turret	9.60	137.25

SECTION VIII

PUSH BUTTON TELEPHONE SYSTEMS KEY EQUIPMENT INTERCOM, and PAGING SYSTEMS	MONTHLY RATE	SERVICE CONNECTION CHARGE
Push Button Telephone Systems:		
Illuminated System:		
- includes pick-up, hold and illumination, each line	$4.55	
- 6 button telephones - 3 lines S.K.I. (NOTE 1)	2.40	$25.75
- 6 button telephones - (NOTE 1)	3.90	25.75
- 6 button E/W exclusion feature (NOTE 1)	4.55	25.75
- 12 button key external (NOTE 1)	18.40	64.50
- 10 or 12 button call director (NOTE 1) (logic - corinthian)	11.50	64.50
- 18 or 20 button call director or logic (NOTE 1)	20.55	92.75
- 30 button call director (NOTE 1)	28.00	152.75
- 60 button call director (NOTE 1)	52.25	268.75
- Face plate additional on logic, each (NOTE 2)		6.50
Digipulse per set (NOTE 3)	3.90	25.75
Cut Off and Exclusion Feature:		
Manual cut off, each	.55	22.50
Manual extension, each	.55	22.50
Automatic Exclusion:		
Each line or each telephone	2.00	22.50
4A Key Equipment and Head Set Unit:		
- 4A key equipment with holding feature, each	2.10	22.50
- 4A key equipment without holding feature, each	1.30	22.50
- Head set unit, each	1.30	

NOTE 1: Pick-up, hold and illumination, extra $4.55 per line.

NOTE 2: Maximum charge $22.50 per visit.

NOTE 3: S.C.C. does not apply on original installation.

SECTION VIII (Cont'd)

PUSH BUTTON TELEPHONE SYSTEMS KEY EQUIPMENT INTERCOM, and PAGING SYSTEMS	MONTHLY RATE	SERVICE CONNECTION CHARGE
Monitoring Equipment:		
Each line	$1.60	$22.50
Busy Lamp Cabinet (Key System):		
- 12 lamps	4.45	61.75
- 24 lamps	5.90	109.50
- Logic busy station	4.00	109.50
Special Key Telephone Units:		
- Busy line lamp, control relay, each circuit	1.95	22.50
- 2A-KTU (battery for paging system)	1.05	22.50
- 1K4 Relay	.70	22.50
- 219-A-KTU (repeater)	8.40	22.50
- 227-BKTU (sequential hunt)	2.85	22.50
- 229-KTU (line transfer relay)	2.65	22.50
- Delayed ring transfer unit - QUN-20A	2.25	22.50
Inter-Communicating Circuits with Dial Signalling:		
Dial Selective - Signalling Unit:		
Dial type signalling unit:		
- first 10 dial codes or less	15.35	66.50
- additional dial code unit, each	—	22.50
- additional dial code, each	1.15	—
- busy tone feature	3.95	22.50
- busy tone feature with flashing lamp	6.00	22.50
- touch tone selection	14.55	22.50
- intercom conversion bell relay - 12 volt	.35	22.50
Link type signalling unit:		
- first 10 dial codes or less	53.75	137.25
- additional dial code, each	3.90	—
- additional dial code units, each	—	66.50
- touch tone selection	26.20	22.50
- long line circuit	3.10	22.50
Add-On Conference Feature:		
- each Central Office line or PBX extension line	3.10	22.50
- each telephone equipped for add-on	1.80	22.50
Manual Intercom: each	2.15	22.50

SECTION VIII (Cont'd)

PUSH BUTTON TELEPHONE SYSTEMS KEY EQUIPMENT INTERCOM, and PAGING SYSTEMS	MONTHLY RATE	SERVICE CONNECTION CHARGE
Paging Systems:		
Amplifiers - under 25 watts	$7.00	$42.75
Amplifiers - 25 to 75 watts	13.15	42.75
Amplifier loudspeaker	7.65	42.75
Loudspeakers:		
- low output	2.00	22.50
- medium output	2.25	22.50
- high output	4.15	22.50
- for use in explosive atmosphere	7.90	22.50
Input:		
- microphone	4.15	22.50
- telephone, key equipment or switchboard jack	2.10	22.50
- for connection of customer-owned radio paging to PABX equipment	5.55	22.50
Business Interphone F:		
Initial business interphone telephone (basic equipment)	14.30	25.75
Additional telephone equipped for business interphone, each	1.75	22.50
Loudspeaker - microphone - indoor each	1.75	22.50
Loudspeaker - microphone - outdoor each	2.40	22.50

SECTION IX

MILEAGE CHARGES	MONTHLY RATE	SERVICE CONNECTION CHARGE
Local Mileage:		
Voice Grade Channels other than Business or Residence main station between buildings on different properties.		
1 - 50 circuits - first 1/4 mile	$3.45	$42.75
1 - 50 circuits - additional 1/4 mile, each	1.10	
Over 50 circuits - first 1/4 mile	2.20	42.75
Over 50 circuits - additional 1/4 mile, each	.75	
Greater Band Width Than Voice Grade:		
Non-equalized - first 1/4 mile	4.15	42.75
Non-equalized - additional 1/4 mile, each	1.50	
5000 to 8000 Hertz - first 1/4 mile	4.55	42.75
5000 to 8000 Hertz - additional 1/4 mile, each	1.90	
8000 to 15000 Hertz - first 1/4 mile	4.95	42.75
8000 to 15000 Hertz - additional 1/4 mile, each	2.20	

Section IX, cont.

Circuits Between Buildings on Continuous Property:

- First 10 circuits, each (max. 1/4 mile run)	.95	42.75
- Next 15 circuits, each (max. 1/4 mile run)	.70	42.75
- Circuits in excess of 15 each (max. 1/4 mile run)	.25	42.75
- Individual circuits between points in same building or on same property, each (max. 1/4 mile run)	2.25	22.50
- Inter-exchange mileage per 1/4 mile	1.50	42.75

SECTION X

TELEPHONE STATION EQUIPMENT	MONTHLY RATE	SERVICE CONNECTION CHARGE
- Dawn (E/W Gold Ring) - (NOTE 1)	$2.25	$22.50
- Contempra - Trendline telephones, each (NOTE 1)	1.25	22.50
- Doodle (E/W 1 pad and 1 pencil (NOTE 1)	2.05	22.50
- Logic 1 (NOTE 1)	2.05	22.50
- Princess - Contessa telephones, each (NOTE 1)	1.25	22.50
- Ericaphone telephone, each (NOTE 1)	1.25	22.50
- Two line telephone, each (NOTE 1)	1.15	22.50
- Tri-line telephone, each (NOTE 1)	3.90	22.50
- Telephone set less dial, each (NOTE 1)	1.95	22.50
- Speakerphone, each	13.00	22.50
- Speakerphone, Companion I	5.15	22.50
- Touch-tone Service		
- Business, each extension telephone	1.25	22.50
- Residence, each extension telephone	1.25	22.50
- Digipulse Service		
- (except Key System - PABX and PBX)		
- Business, each extension telephone	1.25	22.50
- Residence, each extension telephone	1.25	22.50
- 2 Line key - each	1.05	22.50
- 3 Line key - each	1.50	22.50
- Secretarial answering units		
- 10 lines	14.00	61.75
- 20 lines	25.70	75.00
- Single line hold button	1.10	22.50
- Mickey Mouse Telephone, each (NOTE 1)		
- 1st year	10.25	22.50
- thereafter	2.85	
- Alexander Graham Plane, each (NOTE 1)		
- 1st year	7.15	22.50
- thereafter	2.00	

SECTION X (Cont'd)

TELEPHONE STATION EQUIPMENT	MONTHLY RATE	SERVICE CONNECTION CHARGE
Decorator Telephones:		
Chest telephone, each (NOTE 1)	4.45	22.50
- Antique telephone, each (NOTE 1)	4.45	22.50
- Antique wooden wall telephone, each (NOTE 1)	4.45	22.50
- Candlestick telephone, each (NOTE 1)	2.80	22.50
- Telephone with explosive atmosphere feature (NOTE 1)	9.65	22.50
- Telephone with explosive atmosphere feature (NOTE 1) installed after Jan. 1, 1979	27.35	22.50
- Telephone outdoor weatherproof, each (NOTE 1)	3.35	22.50
- Telephone (building elevator), each (NOTE 1)	7.45	22.50
- Pedestal, each	2.10	22.50
- Handset, equipped with volume control:		
hearing, each (NOTE 1) (NOTE 2)	2.25	22.50
speech, each (NOTE 1) (NOTE 2)	2.25	22.50
- Noisy location - special transmitter each (NOTE 1)	1.15	22.50
Apartment Enterphone:		
Basic unit (24 Subscribers)	$58.80	$193.25
Additional unit (each additional 24 Subscribers)	6.30	42.75
Automatic Dialer:		
Magicall, each	21.55	22.50
Auto-Dialer Logic	10.50	22.50
Auto-Dialer	9.50	22.50
Automatic Telephone Answering and Recording Equipment:		
- Answering and recording equipment tape maximum - 2 hr. each 700	26.90	22.50
- Answering and recording equipment, 30 second playback — Feature 440-444-333	24.50	22.50
- Answering and recording equipment - Tape maximum 10 minutes, each (MEMORY PHONE)	11.75	22.50
- Addition pocket coder, each	2.85	Nil
- Back spacer, each	1.85	22.50
- Answering equipment, each 200A	18.40	22.50
- Monitor recorder, each	23.00	22.50
- Foot switch	1.30	22.50
- Special receiver	1.25	22.50

NOTE 1: In addition to monthly rates.

NOTE 2: At Doctor's request. No monthly rental, only S.C.C.

SECTION XI

OTHER EQUIPMENT	MONTHLY RATE	SERVICE CONNECTION CHARGE
Ring Down Circuit:		
Installed on customer premises	$4.60	$42.75
Installed in Central Office	3.90	42.75
Auxiliary touch-tone pad	4.60	42.75
Facsimile Equipment:		
- Telescript receiver	49.65	64.50
- Telescript transmitter	56.75	64.50
- Telescript transceiver	85.05	64.50
- End-of-message unit	4.60	
Neutralizing Transformers:		
Monthly charge shall be on the basis of total circuits each transformer is equipped with:		
- 2 K.V. Transformer, each circuit	2.75	22.50
- 3 K.V. Transformer, each circuit	7.90	22.50
- 4.5 K.V. Transformer, each circuit	8.55	22.50
- 7.5 K.V. Transformer, each circuit	18.55	22.50
- 9 K.V. Transformer, each circuit	18.55	22.50
- 12.5 K.V. Transformer, each circuit	8.00	22.50
Custom Calling Features:		
Call Forwarding - Business	4.35	17.75
Call Forwarding - Residence	2.40	17.75
Call Waiting - Business	3.65	17.75
Call Waiting - Residence	2.40	17.75
Three way calling - Business	3.05	17.75
Three way calling - Residence	2.40	17.75
Speed calling (8 code) - Business	3.05	17.75
Speed calling (8 code) - Residence	1.80	17.75
Speed calling (30 code) - Residence	2.95	17.75
Maximum S.C.C. of $26.75 for two (2) or more customer features.		
No monthly rental increase on custom calling features. Tariffs originally established based on software costs for electronic/digital Central Offices.		
Jack and Plug Equipment:		
Jack, each		$22.50
Weatherproof jack, outdoor, each		22.50

SECTION XI (Cont'd)

OTHER EQUIPMENT	MONTHLY RATE	SERVICE CONNECTION CHARGE
Line Signals:		
Each push button, buzzer or No. 7 bell (NOTE 1)	$.65	22.50
Extension bell, regular, each	.65	22.50
Extension bell, (loud gong), each	.95	22.50
Bell Chime, each	1.25	22.50
Lamp Signals:		
1 lamp indicator, each	.65	22.50
2 lamp indicator, each	.85	22.50
3 lamp indicator, each	1.10	22.50
Commercial Power Signals:		
Telecode relay, each (NOTE 2)	1.60	22.50
Bell vibrating - 8 inch, each	1.75	22.50
Bell vibrating - 10 inch, each	3.10	22.50
Horn - indoor, each	2.55	22.50
Horn - outdoor, each	3.10	22.50
Receiver:		
Single head receiver, each	.60	
Double head receiver, each	.90	
Head and Hand Sets - Additional:		
For each console or attendant's position one (1) supplied)	N/C	
Additional head set, each and jack mounting	1.35	
Additional hand set, each	1.50	
Lightweight head set, each	6.45	
Voycall Equipment		
- 15/25/1/1 - One bay exchange, each	$47.15	$89.25
- PS-382 - Power supply, each	1.60	
- DP-11 - Dual phone (single), each	8.70	45.50
- DP-31 - Dual phone (five line), each	11.40	48.50
- DP-32/HF-10 - Dial phone with speaker and phone adapter	17.50	71.25
- CSM-6A - Master station, each	3.75	45.50
- CSM-6AH - Master station (E/W Handset, each	5.25	45.50
- CSM-8W - Wall telephone master station, each	3.20	45.50
- CSN-2 - Paging adapter, each	.70	
- DP-51 - Rotary dial (10 button), each	13.30	87.25

NOTE 1: If a push-button, buzzer or bell is installed as a circuit, only one S.C.C. will apply. If an additional buzzer or bell is installed at the same time, 1/2 the S.C.C. will apply.

NOTE 2: Customer will supply commercial power.

SECTION XI (Cont'd)

OTHER EQUIPMENT	MONTHLY RATE	SERVICE CONNECTION CHARGE
Special Assemblies:		
Reset register	2.55	22.50
Rotary splitting feature	3.45	22.50
44V4 shelf E/W 350H equalizers and No. 227 amp.	22.50	68.75
SPECIAL ASSEMBLY FOR SURE STAFF INTERFACE		
Bell Canada Commercial:		
1 register (non-resetable RGD66E 24V)	3.95	COST OF
1 card file (positron model 7483-5W)	43.50	LABOUR
1 line card (positron model 7356)	21.40	AND
1 register card (positron model 7483)	30.05	MATERIAL
SPECIAL ASSEMBLY FOR DATA ROUTE CIRCUIT (ROYAL BANK OF CANADA)		
Canadian Imperial Bank of Commerce:		
Jack panel	3.10	COST OF
Loop back key	4.45	LABOUR
Dual 2W/6W conference bridge	2.45	AND
Dual line amplifier	7.45	MATERIAL
Fuse distribution module	2.25	
Wescom 4UA-13 Universal Shelf	15.30	
Cords:		
Block 13 ft. coloured or 14 ft. neutral, each (NOTE 1)	$5.55	$22.50
Handset - coiled 13 ft. each (NOTE 1)	5.55	22.50
Operator - coiled 10 ft. each (NOTE 1)	7.50	22.50
Operator - coiled 15 ft. each (NOTE 1)	12.00	22.50
Mounting cord for 6 button telephone:		
- 9 ft. each	41.10	22.50
- 13 ft. each	45.15	22.50
Block - 25 ft. neutral (NOTE 1)	6.85	22.50

NOTE 1: Service charge will not apply if work is done at the same time on the telephone.

SECTION XII

CUSTOMER PROVIDED EQUIPMENT	MONTHLY RATE	SERVICE CONNECTION CHARGE
Telephone:		
Telephone approved for connection as in (NOTE 1)		$45.50
Telephone requiring modification (NOTE 1)		112.75
Customer provided telephotograph equipment, operating in connection with individual line telephone service only. Requires protective connection equipment.	$1.35	22.50
Key, if switching of telephone and protective-connection equipment is to be effected	.90	
EC 30A Voice Coupler (CKPR Radio Station)	1.50	22.50
Customer provided voice-recording equipment, except in connection with public or semi-public service. Requires recorder-connector equipment supplying distinctive "beep" tone	7.30	22.50
Customer provided data-transmitting and receiving equipment, operating in connection with individual line telephone service only. Requires data connector equipment (if system provides data-phone, also specific tariff, therefore shall apply).		
- Manual	5.55	45.50
- E/W Automatic Answering Feature	10.50	45.50
Customer provided automatic answering equipment operating in connection with individual line or PBX service only. Requires voice-coupler equipment (QCS2B Coupler)	7.30	22.50
UAV-3N ESC-20721-1 (Elgin) Voice Station Coupler (for customer provided dictation equipment)	12.55	22.50
Customer provided alarm detecting and sending device equipment, operating in connection with individual line or PBX service only. Requires alarm-coupler equipment	7.30	22.50
Trouble found in customer owned equipment, each visit		45.50

NOTE 1: Existing monthly rental will apply.

SECTION XIII

ARRANGEMENTS FOR DATA TRANSMISSION	MONTHLY RATE	SERVICE CONNECTION CHARGE
Channels for Data Transmission:		
Channel-conditioning arrangements - same exchange		
- two point not arranged for switching	$13.95	$28.50
- type 4A conditioning, each channel	13.95	35.50
- type 4B conditioning, each channel	49.65	52.25
- type 4C conditioning, each channel	51.45	64.50
Channel conditioning between exchanges		
- type 4C conditioning	66.25	64.50
Conditioning to provide zero DB at 1000 Hertz	16.00	42.75
Special amplifier	16.00	53.75

SECTION XIV

PBX SYSTEM - CENTREX	MONTHLY RATE	MINIMUM MONTHLY CHARGE	SERVICE CONNECTION CHARGE
Centrex I:			
153 Extension lines or less - each	$20.50	$2,033.00	$22.50
154 Extension lines or more			
First 500 extension lines, each	15.65	3,931.75	22.50
Next 1000 extension lines, each	18.25		22.50
Over 1500 extension lines, each	14.10		22.50
Centrex II:			
153 Extension lines or less - each	22.35	2,241.15	22.50
154 Extension lines or more			
First 500 extension lines, each	17.25	4,325.05	22.50
Next 1000 extension lines, each	16.05		22.50
Over 1500 extension lines, each	18.25		22.50
Each telephone in excess of one on a line	2.10		22.50
Restricted extension	12.55		22.50
Centrex recorder intercept arrangement	5.30	32.25	
Immediate Ringing Feature:			
Initial 100 extension lines	33.10		
Each additional 100 extension lines	13.30		

SECTION XIV (Cont'd)

PBX SYSTEM CENTREX		MONTHLY RATE	SERVICE CONNECTION CHARGE
Data Set Direct Access to Wats on Centrex:			
Initial arrangement	72.90		107.50
Additional arrangement on same premises	10.60		107.50
Attendant's position	157.90		483.75
Attendant's transfer feature	2.95		3.15
Centrex console push-button access	5.05		48.50
Attendant camp-on — Common equipment	5.55		16.00
Restrict dial access to and tandem arrangement of tie trunk	53.00		107.50
Transfer arrangement - foreign exchange Trunk to a remotely located telephone	13.30		64.50
Equivalent service enlargement	52.25		215.25
Tie trunk network restriction	4.00		16.25
Tie trunk Toll Diversion - each system - each location	99.40		
Tie Trunks - Miscellaneous Arrangements:			
(a) Tie trunks busy register		$9.90	$64.50
(b) Silence buzzers		4.00	129.00
Common equipment		5.30	53.75
Each group of tie trunks equipped		6.60	21.50
4-Wire tandeming with pad control			
Common equipment		5.30	
Each tie trunk terminator		13.30	24.25
Tie trunk multiples to push-button telephones			
Each tie trunk		4.60	32.25
Network Access Via 3-digit code on Centrex II			
Each tie trunk		9.90	42.75
Denial of dial access to tie trunks			
Each tie trunk		4.50	32.25
Sequence use of extension lines for dictation recording		46.40	107.25
Diversion of dial access to WATS and foreign exchange - Each trunk group		11.95	64.50
Tie Trunk Terminal, each:			
Outgoing dial		9.75	26.50
Incoming dial		21.90	26.50
Outgoing and Incoming dial		26.10	26.50
Manual appearance of dial or manual tie trunk		5.65	26.50
Secretarial hunting, each line		.70	26.50

SECTION XV

RENTAL	MONTHLY RATE	SERVICE CONNECTION CHARGE
Arrangement for Data Transmission:		
Types of Data Sets:		
- N.E. 103A2 (300 B.P.S.)	$41.75	$78.50
- N.E. 202C (0-1800 B.P.S.)	78.35	161.50
- T 202E9 (0-1200 B.P.S.)	39.10	64.50
- T A201A3/4E (2000 B.P.S.)	156.70	322.25
- 202 S/T - 1200 B.P.S. to 1800 B.P.S. (ASYNC)	30.20	161.50
- 201 LSI - (2000 - 2400 B.P.S.) SYNCHRONOUS	130.55	257.75
- 201 CLSI(200 - 2400 B.P.S.) SYNCHRONOUS	59.55	257.75
- LDS-309 (Gandalf) Limited Distance, SYNCHRONOUS 9600 B.P.S.	25.50	64.50
- LDS-140 (Gandalf)	25.05	64.50
- No. 611 (Directran)	14.70	50.00
- Trans STU 971-1 - SYNCHRONOUS Digital Data Set	70.50	64.50
- GDC-108-3 Data Modem	33.45	64.50
Multicom II Service:		
Multicom II access (240 B.P.S.)	130.55	51.75
Associated T 201B3 Data Set with auxiliary TT set	163.20	322.25
Data connector equipment	5.50	38.75
Automatic exclusion	2.25	19.50
Network security		64.50
Unattended answer	11.15	25.75
Local loop around test circuit		64.50
ULK Special Assembly	13.40	40.50
Arrangement for Data Transmission:		
Voicecom I Access Line:		
Includes 1 FB + 6-10 dialer	117.45	42.75

Change location of data, Multicom II and Voicecom I sets 1/2 regular Service Connection Charge.

Chairman

ORDER NO. 4269

Monday, the 14th day of November, A.D. 1983

BEFORE

V. W. Bielski, Q.C. Chairman,	)	IN THE MATTER of sections 6(1) 10 and 15 of The Telephone Act (R.S.O. 1980, c.496)
R. D. Sloan, Vice-Chairman,	)	and
D. A. Austin, Member, and	)	IN THE MATTER of a review of Order No. 2720 dated May 29, 1970, Order No. 2970 dated June 15, 1972, Order No. 3126 dated November 8, 1973 and Order No. 3221 dated October 7, 1974.
M. H. Shecter, Member.	)	

HEARD AT:

TORONTO, September 23, 1983.

1.0 ORDER

1.1 WHEREAS pursuant to Order No. 2720 May 29, 1970 whereby all telephone systems were permitted to charge rates for self contained dial-outpulsing button telephones and,

1.2 WHEREAS Order No. 2970 dated June 15, 1972 approved installation charges effective July 01, 1972 and,

1.3 WHEREAS Order No. 3126 dated November 8, 1973 approved rates for supplementary services effective December 01, 1973 provided special supplementary rates had not been approved and,

1.4 WHEREAS Order No. 3221 dated October 7, 1974 approved rates and conditions for Directory Assistance Charges, to be levied by all telephone systems,

1.5 UPON REVIEW OF Order No.2720, Order No. 2970, Order No. 3126 and Order No. 3221,

1.6 THE COMMISSION HEREBY REVOKES, under and in pursuance of sections 6(1), 10 and 15 of The Telephone Act (R.S.O. 1980, c.496) Order No. 2720 dated May 29, 1970, Order No. 2970 dated June 15, 1972, Order No. 3126 dated November 8, 1972 and Order No. 3221 dated October 7, 1974.

2.0 REASONS

The Commission has reviewed the background of rates being applied by most telephone companies under its jurisdiction. During the course of its review, it was noted that certain orders for rates were permissive while others approved specific rates. The Commission was uncertain as to what tariff rates were actually being used by a number of telephone systems since the issuance of these Orders. The Commission was also concerned as to whether the rates and service charges for all telephone systems were current and had Commission approval. The Commission has reviewed and approved the rates and service charges applied by the telephone systems pursuant to the Orders revoked in this Order.

Chairman

ONTARIO TELEPHONE SERVICE COMMISSION

ORDER NO. 4270

Thursday, the 24th day of November, A.D. 1983

BEFORE

V. W. Bielski, Q.C. Chairman, R. D. Sloan, Vice-Chairman, D. A. Austin, Member, G. Klosler, Member, and M. H. Shecter, Member.	)	IN THE MATTER of sections 6(1) 15(1) and 21 of The Telephone Act (R.S.O. 1980, c.496) and IN THE MATTER of a review of the Directory Assistance Charge and the conditions under which such a charge shall apply.

HEARD AT:

TORONTO, November 22, 1983.

1.0 ORDER

WHEREAS the Ontario Telephone Service Commission issued Order No. 3221 dated October 7, 1974, as a result of an application of the Ontario Telephone Association,

AND WHEREAS the above-mentioned Order approved a Directory Assistance Charge and the conditions under which such a charge applies,

AND WHEREAS the above-mentioned Order was revoked by Order No. 4269 dated November 14, 1983,

AND WHEREAS The Ontario Telephone Service Commission has conducted a review of the Directory Assistance Charge and the conditions under which such a charge shall apply,

1.1 THE COMMISSION ORDERS that a Directory Assistance Charge levied by a telephone system is to be in accordance with the following conditions:

1. A Directory Assistance charge is levied in respect of each telephone number provided by the telephone system's local information service when the telephone number provided appears in the most recent telephone directory provided to the customer with his basic exchange service.

2. Notwithstanding the above, no charge shall be levied:

   (a) To persons calling from Public Telephone Service, Semi-Public Telephone Service, Hotel and Motel P.B.X. Service and Mobile Telephone Service.

   (b) To persons calling from federally or provincially registered hospitals.

   (c) To persons who have a physical or mental disability such that they are unable to use the directory. These persons must be registered with the telephone system.

   (d) To persons 65 years of age and over and who are so registered with the telephone system.

   (e) To persons calling and indicating that an emergency exists.

   (f) To persons calling and requesting telephone numbers of the telephone system.

Chairman

ONTARIO TELEPHONE SERVICE COMMISSION

ORDER NO. 4276

Thursday, the 15th day of December, A.D., 1983

BEFORE

V.W. Bielski, Q.C., Chairman,	)	IN THE MATTER of sections 6(1), 10, 15(1), 21, 89(1), 90 and 91 of The Telephone Act (R.S.O. 1980, c.496),
R.D. Sloan, Vice Chairman, and	)	and
D.A. Austin, Member,	)	IN THE MATTER of the interconnection of customer provided terminal equipment to the facilities of the telephone systems subject to the jurisdiction of Ontario.
G. Klosler, Member,	)	
M.H. Shecter, Member,	)	

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1.0 ORDER

WHEREAS the Ontario Telephone Service Commission has conducted a general review of the issues related to the attachment of customer provided terminal equipment to the telephone systems subject to its jurisdiction,

AND WHEREAS the Ontario Telephone Service Commission issued Interim Order No. 4188 respecting the attaching of customer provided terminal equipment to the systems subject to its jurisdiction,

AND WHEREAS the Ontario Telephone Service Commission has reviewed all evidence brought before it respecting the attachment of customer provided terminal equipment to the systems subject to its jurisdiction.

GENERAL

1.1 THE COMMISSION REVOKES, under and pursuant to sections 6(1), 10, 15(1), 21, 89(1), 90 and 91 of The Telephone Act (R.S.O. 1980, c.496), for the reasons set out in the Reasons accompanying this Order, Interim Order No. 4188 and orders and directs as follows.

1.2 THE COMMISSION ORDERS that telephone systems shall continue to own and operate all equipment, except run-off poles on private property, operated in connection with the system in accordance with section 91 of The Telephone Act except as otherwise permitted in this Order.

1.3 THE COMMISSION DIRECTS all telephone systems to inform their customers by the use of a "Notice to Telephone Customers" inserted in their monthly billing, of the extent to which customers may provide terminal equipment and the rules that apply thereto as set out in this Order and the accompanying Reasons.

1.4 THE COMMISSION FURTHER ORDERS that in the case of single line business and residential service, telephone systems shall own and maintain equipment used in connection with the provision of the service including the inside wiring and the jack necessary to connect terminal equipment to the system but need not own and maintain terminal equipment. However, telephone systems shall provide terminal equipment in accordance with section 89(1) of The Telephone Act when a customer desires that a telephone system provide such equipment.

1.4.2 THE COMMISSION FURTHER ORDERS that in the case of single line business and residential service, customers of telephone systems may provide and attach to the jack of the telephone system, terminal equipment which is certified under the Terminal Attachment Program of the Government of Canada. Customers may also provide and attach terminal equipment by means of an acoustical or induction connection.

1.4.2 THE COMMISSION FURTHER ORDERS that in the case of single line business and residential service, equipment attached in accordance with any requirements of Interim Order No. 4188, section 1.6.1, may remain attached.

MULTI-LINE SERVICE

1.5 THE COMMISSION FURTHER ORDERS that in the case of multi-line business service, telephone systems shall own and maintain equipment used in connection with the provision of service to a point of demarcation on the customer's premises and shall provide terminal equipment in accordance with section 89(1) of The Telephone Act when a customer desires that a telephone system provide such terminal equipment.

1.5.1 THE COMMISSION FURTHER ORDERS that in the case of multi-line service, customers of telephone systems may provide and attach to the equipment of the telephone system at a point of demarcation on the customer's premises at the connecting point terminal equipment which is certified under the Terminal Attachment Program of the Government of Canada. Customers may also provide and attach terminal equipment by means of an acoustical or induction connection.

TWO-PARTY AND FOUR-PARTY SERVICE

1.6 THE COMMISSION FURTHER ORDERS that in the case of two-party and four-party line service, telephone systems shall own and maintain equipment used in connection with the provision of the service including the inside wiring and the jack necessary to connect terminal equipment to the system, and shall provide terminal equipment in accordance with section 89(1) of The Telephone Act when a customer desires that a telephone system provide such terminal equipment.

1.6.1 THE COMMISSION FURTHER ORDERS that in the case of two-party and four-party line service, customers of a telephone system may provide and attach to the jack of the telephone system terminal equipment which is certified under the Terminal Attachment Program of the Government of Canada and is appropriately modified by the telephone systems for connection to two-party and four-party line service.

1.6.2 THE COMMISSION FURTHER ORDERS that in the case of two-party and four-party line service, notwithstanding the provisions of section 1.6.1 of this Order, no customer shall provide and attach any terminal equipment to the jack of a telephone system, unless and until such equipment has been inspected by the telephone system and approval for connection obtained. Such approval shall not be withheld unless the terminal equipment is incompatible with the provision of two-party and four-party line service.

1.6.3 THE COMMISSION FURTHER ORDERS that in the case of two-party and four-party line service, every telephone system, where approval has been withheld under section 1.6.2 of this Order, shall make such necessary modification to the telephone set at the customer's request and shall within ninety (90) days of this Order file with the Commission for its approval rates for the inspection and modification of telephone sets which are not compatible with the provision of two-party and four-party line service.

1.6.4 THE COMMISSION FURTHER ORDERS that notwithstanding the provisions of sections 1.6, 1.6.1, 1.6.2 and 1.6.3 of this Order, a customer shall not provide and attach any terminal equipment except a telephone set to the network of a telephone system providing two-party or four-party line service.

SALE OF TERMINAL EQUIPMENT BY SYSTEMS

1.7 THE COMMISSION FURTHER ORDERS that telephone systems, subject to the jurisdiction of the Commission, may sell terminal equipment to customers and sell terminal equipment through the provisions of a financial lease, which is a sale equivalent, provided that any such sales recover the costs incurred, all costs being considered.

1.7.1 THE COMMISSION FURTHER ORDERS that any telephone system which sells terminal equipment pursuant to section 1.7 of this Order, shall do so either through a separate arms-length subsidiary corporation or shall segregate such activities in its books of account to clearly identify the sales function in a manner that allows the Commission to verify that sales of equipment recover the costs incurred, all costs being considered.

1.7.2 THE COMMISSION FURTHER ORDERS that telephone systems subject to the jurisdiction of the Commission may sell in-lace terminal equipment to customers and the related allocation issue will be addressed by the Commission when a telephone system files its segregated accounts plan in accordance with section 1.7.3.

1.7.3 THE COMMISSION FURTHER ORDERS that where a telephone system elects to sell terminal equipment, it shall file with the Commission for its approval the segregated accounts plan which is intended to be employed by the telephone system.

1.7.4 THE COMMISSION FURTHER ORDERS that the segregated accounts plan referred to in section 1.7.3 of this Order shall, to the greatest extent possible, be compatible with the Uniform System of Accounts.

UNBUNDLING OF RATES

1.8 THE COMMISSION FURTHER ORDERS that within one hundred and eighty (180) days from the date of this Order, every telephone system, subject to the jurisdiction of the Commission, shall issue bills to all customers which clearly segregate that portion of the bill attributable to access to the network of the system and that portion of the bill, if any, which is attributable to the rental of terminal equipment from the system.

1.8.1 THE COMMISSION FURTHER ORDERS that the portion of the bill attributable to access to the network of the system shall be computed by deducting the sum of ninety-five cents ($.95) from the total sum of the monthly approved rate for each basic grade of service offered by the telephone system.

1.8.2 THE COMMISSION FURTHER ORDERS that any rates attributable to premium telephone sets or other vertical services shall be clearly set out as separate items on the monthly bill to the customer.

2.0 BACKGROUND

For a number of years the Ontario Telephone Service Commission has received individual applications pursuant to section 91 of The Telephone Act for the connection of particular pieces of customer provided terminal equipment to the telephone systems subject to its jurisdiction. As the number and diversity of such applications increased, it became apparent that the question of customer provided terminal equipment ought to be addressed by the Commission as a matter of general regulatory policy. It was the Commission's view that it would not be

in the public interest to continue to deal with the matter in an ad hoc fashion. To do so would be to ignore the reality that the issue has become one of national concern which most regulatory bodies in Canada have either addressed or are currently in the process of addressing.

In order to make as informed a decision as possible, the Commission began its inquiry into this matter by publishing a notice in a number of newspapers requesting interested persons to identify what areas they considered to be issues associated with attachment of customer provided terminal equipment to the telephone systems subject to its jurisdiction. This notice was published on November 18, 1981 and the Commission received a substantial number of responses from interested parties. Subsequently, the Commission, after considering the responses, defined seven issues which appeared to be central to the determination of the question of customer provided terminal equipment. These issues were:

(1) Whether or not or to what extent the attachment of customer provided terminal devices is in the public interest and if so, the appropriate scope and phasing in of customer provided terminal attachment.

(2) The impact of customer provided terminal attachment on the needs of telephone subscribers, carrier responsiveness and the quality of service generally.

(3) The impact of customer provided terminal attachment on the revenues, the costs and the rates of the telephone systems.

(4) The effect of customer provided terminal attachment on telecommunication manufacturers and suppliers.

(5) The technical standards and the method of compliance which should apply to customer provided terminal devices.

(6) The rules governing the participation of a telephone system or subsidiary of a telephone system in the market for the provision of customer provided terminal devices.

(7) The nature and extent of the Commission's jurisdiction to make orders dealing with customer provided terminal attachment particularly with respect to the current tariffs of the telephone systems under Commission jurisdiction and other questions of law.

The Commission, having decided that these issues were central to its deliberations, published a further notice on February 11, 1982 stating these issues and requesting interested persons to file comments with the Commission prior to April 30, 1982. In the same notice, the Commission indicated its intention to hold a hearing into the matter commencing June 23, 1982 By separate letter, the Commission advised each telephone system of its intention.

In response to its notice of February 11, 1982, the Commission received responses from a variety of interested persons. On June 23, 24 and 25, 1982, the Commission held a hearing in Toronto, Ontario. Parties in attendance at the hearing were:

- Canadian Business Equipment Manufacturers Association (CBEMA)
- Canadian Federation Communications Workers (CFCW)
- Canadian Radio Common Carriers Association (CRCCA)
- CNCP Telecommunications (CNCP)
- The Corporation of The City of Thunder Bay Telecommunications Department (Thunder Bay)
- The Director of Investigation and Research, Combines Investigation Act (The Director)

- International Brotherhood of Electrical Workers Local 339
- Joint Submission, Hurontario Telephones Limited, Durham Telephones Limited, North Norwich Municipal Telephone System
- Mid Canada Phone Systems (Mid Canada)
- Northern Telephone Limited (NTL)
- Ontario Hospital Association (OHA)
- Ontario Telephone Association (OTA)

Following the public hearing, the Commission requested that parties attending the hearing, file written argument within 30 days with the Commission and serve same on all parties of record. Parties were then given a further 15 days to comment by way of reply to the arguments of others. Arguments were duly received in accordance with the Commission's direction.

After considering all the material before it, the Commission in Interim Order No. 4188 dated November 18, 1982, came to a determination that the connection of customer provided terminal equipment (CPTE) to the telephone systems ought to be allowed, on an interim basis, subject to certain terms and conditions.

In the Reasons accompanying Interim Order No. 4188, the Commission identified rate unbundling as a matter which it believed must be addressed. The Commission invited parties to submit comments on specific proposals regarding unbundled rates.

Finally, on May 13, 1983, the Commission published a public notice inviting further comments on four areas of concern associated with interconnection of customer provided terminal equipment. These areas were as follows:

1. **Telephone Sets and Inside Wiring**
   Should individual residence or business exchange service customers be offered the opportunity to provide either or both the primary telephone set and the inside wiring?

2. **Rate Unbundling**
   If customers are offered the opportunity to provide either or both the primary telephone set and inside wiring, how should the monthly flat rate be unbundled to reflect the different components such as access charge, terminal set charge and/or inside wiring charge?

3. **Small System Prohibition**
   Currently, business customers served by a telephone system with less than 1500 main telephones are prohibited from connecting customer provided equipment. Should this restriction be removed?

4. **Interim Experience**
   The Commission is interested in receiving comments from any party which has been affected by the terms and conditions for interconnection set out in Commission Interim Order No. 4188.

The Commission now has before it a record of comments from many interested groups and persons concerning a variety of the complex questions associated with the issue of CPTE. This record has been collected over a period of two years after numerous requests for submissions, a public hearing and experience with CPTE during an interim period. The Commission is now of the view that it has sufficient information before it that it can finalize its Order in a more definite way with respect to many aspects of this topic.

3.0 PART I: GENERAL

After careful consideration of the lengthy record in this proceeding, the Commission has come to the determination that interconnection of customer provided terminal equipment to the network of the telephone systems is in the public interest and a final Order should be issued setting out the institutional arrangements necessary to implement this decision. It is the Commission's view that the customers of the telephone systems, the telephone systems themselves and the provision of telecommunications services generally in Ontario will benefit from this step.

Customers of telephone systems will benefit because of access to a broader range of telecommunications equipment. In a changing telecommunications environment the public increasingly desires new and innovative terminal equipment in a timely fashion to which they may be denied access under the historic method of tariffed offerings by the telephone systems.

The new diversity of telecommunications equipment which fulfills specialized needs is simply not susceptible to a system of provisioning which requires telephone systems to provide such equipment according to rigid tariff constraints and regulatory approvals. As well, the Commission believes that customers will benefit from competition of terminal equipment among suppliers including the telephone systems themselves. Competition, where it is possible, generally is productive of lower prices and more efficient service than is available under conditions of monopoly supply. In the Commission's view, the provision of terminal equipment today is no longer an area of natural monopoly in the theoretical economic sense. Competition should be allowed in this area of the telecommunications business so that customers are able to receive the benefits of competitive supply.

The Commission has also carefully considered the impacts which may affect the telephone systems. Several representatives of the telephone industry in Ontario have advanced the proposition that serious revenue erosion will result from CPTE. The Commission's views on the topic of revenue erosion are dealt with elsewhere in this Order. Suffice it to say here, there has not been any documented case brought to the Commission's attention which would substantiate this proposition. During the course of the public hearing, the question of revenue erosion was raised on several occasions. No representatives of the telephone industry in Ontario were able to supply quantitative analysis which would demonstrate conclusively that the provision of terminal equipment was a source of revenue contribution to basic local service.

Mr. Charles Zielinski, a witness on behalf of the Director of Combines Investigation and Research under the Combines Investigation Act, provided evidence that in the United States formal studies had not established this proposition. Mr. Zielinski's evidence at pages 229 and following of the transcript was that indeed it had been found in some American studies that in fact terminal equipment was a recipient of a subsidy. As a result, the Commission has concluded that any revenue loss would be of little consequence.

Telephone systems may also benefit from the CPTE. As will be discussed at greater length later in these Reasons, telephone systems will achieve a larger measure of latitude with respect to terminal equipment offerings under a number of circumstances. Also, telephone systems can have an equal opportunity to join in the competitive market with respect to the sale of terminal equipment and to take advantage of these opportunities.

4.0 PART II: DECISION ON THE ISSUES

The Commission has reviewed all the material before it in light of the issues which it published for comments. In many instances each broad issue was found to contain several subcomponents. The Commission's decision on each of the issues are discussed sequentially.

4.1 ISSUE 1

WHETHER OR NOT OR TO WHAT EXTENT THE ATTACHMENT OF CUSTOMER PROVIDED TERMINAL DEVICES IS IN THE PUBLIC INTEREST AND IF SO, THE APPROPRIATE SCOPE AND PHASING IN OF CUSTOMER PROVIDED TERMINAL ATTACHMENT.

In its Interim Order No. 4188, at section 1.8, the Commission defined the extent to which it believed that connection of customer provided terminal equipment was in the public interest. The Commission stated:

> 1.8 THE COMMISSION FURTHER ORDERS that the telephone system provide the necessary inside wiring, including the connecting device(s) and, in the case of single line service, a telephone set, to every customer wishing to interconnect customer provided terminal equipment, at rates approved for such services.

Implicit in the Commission's Order was that telephone systems continue to provide the main telephone set, the jack and the inside wiring for single line service. In examining the material before it and the experience during the interim period, the Commission has reviewed this portion of its Interim Order in coming to a final determination.

4.1.1 The Main Telephone Set

Under existing tariff arrangements the requirement that the telephone company provide for all customers the "main" telephone set from the telephone system was not unreasonable. The tariff charge for single line residential service and business service includes one telephone set. Without unbundled rates for the set and network access portions of the monthly charge previous tariff constraints alone justified this requirement. During the interim period, the Commission was of the opinion that it was not feasible to unbundle the flat rates until the decision on all issues was finalized.

The desirability of retaining a main telephone requirement was addressed by a number of interested parties. No party has recommended to the Commission that a main telephone requirement be retained if the Commission decided to permit customer provided terminal equipment and many specifically recommended that the main set or primary instrument concept be abandoned. The comments of several parties will suffice to indicate the general tone of the telephone industry's concern. Northern Telephone Limited at page 13 of its Final Argument stated:

> The Company's position on demarcation points is intended to eliminate confusion and provide for a clear understanding of the rules by all parties.
>
> The Company is also concerned that if it is obliged to provide the primary instrument, and this primary instrument was not a source of contribution, but in fact a subsidized item, then we would be obligated to carry the non-compensatory item as well as competing in competitive areas of terminal attachment.
>
> Also a further shortcoming of the primary instrument concept is that, customers would not have the option of supplier or saving money by doing their own installation of their first telephone set and associated inside wiring.

The Ontario Telephone Association made the following comment at page 2 of its Final Argument:

> It is the Association's opinion that the primary set concept should be abandoned as it has been in the U.S. During the proceedings there was no evidence given which would suggest that having the customer responsible for all terminal devices and inside wire would be detrimental to the customer.

The Director also advocated the abandonment of the primary instrument concept. At pages 3 and 4 of his Final Argument the following comment is found:

> The Director submits that the type of equipment included within the Commission's Final Decision on terminal attachment should include primary and extension instruments, inside wiring, telex equipment and mobile telephone terminal devices.
>
> The derivation of uniform technical standards alleviates the frequently expressed concern for the protection of the network and eliminates the need for protective measures such as requiring that the main station be the property of the telephone company, commonly known as the primary instrument concept.

Mr. Charles Zielinski, a witness called by the Director gave evidence on the desirability of a primary instrument concept. Mr. Zielinski's comment at page 242 of the transcript is reflective of his view that the concept should be rejected:

> MR. ZIELINSKI: "...I see no reason why a person should be forced to take even one instrument from the telephone company if that person chooses not to. I began with the proposition that the customer, the subscribers ought to have the maximum freedom of choice that is possible. Unless there is some very strong reason for society as a whole to require a person to take one instrument from the telephone company, I see no reason why a person should be forced to do so."

The Commission also notes that the primary instrument concept has been rejected both by the Federal Communications Commission of the United States and by the Canadian Radio-television and Telecommunications Commission.

Upon review of these submissions and the experience during the interim period, the Commission is convinced that customers and the telephone systems will benefit from a competitive environment allowing a freedom of choice in respect to terminal devices. In view of the Commission's decision to require the unbundling of rates, no rationale remains from a tariff perspective to maintain a primary instrument concept. For these reasons, the Commission has decided that customers need no longer take any telephone set from the telephone system but now may own any telephone set within the premises.

4.1.2 Inside Writing Including the Network Connecting Device

Many parties have addressed the problem of customer provided inside wiring in their evidence, arguments, and in response to the Commission's Notice of May 13, 1983. The telephone industry has argued that if customer ownership of the terminal equipment is allowed, then customer ownership of inside wiring is preferred. The telephone industry would prefer that the demarcation point between telephone system provided equipment and the responsibility of the customer be the protector at its entry point at the customer's premises.

The proponents of customer owned inside wiring made extensive argument on the point. Northern Telephone Limited at page 12 of its Final Argument stated:

> Without detailed records showing the Company's inside wiring and main telephone set location, there could be confusion in terms of maintenance resulting in serious misunderstandings over repair visit charges. Also the Company could incur added maintenance expense on telephone plant which it does not own.

and at page 13:

> Such records may prove to be worthless since there would likely be re-arrangements of inside wiring and telephone apparatus undertaken by subscribers without the Company's knowledge.
>
> The Company's position on demarcation points is intended to eliminate confusion and provide for a clear understanding of the rules by all parties.

Thunder Bay stated its preference for customer ownership of inside wiring at page 2 of its Final Argument:

> Should the attachment of customer provided terminal devices be considered by the Commission to be in the public interest, then the ownership of all inside wiring, jacks or outlets should be transferred to the customer under an appropriate arrangement which would allow the telephone system to recover its costs. The point of connection would then be the network interface device and the customer would be responsible for all provisioning and maintenance of the inside wire and associated equipment on the terminal side of the network interface device.

The Ontario Telephone Association also supported the customer provisioning of inside wiring at page 2 of its Final Argument:

> The position of the Association and its members is that if use of CPTDs is allowed then the telephone company will provide and maintain service up to a company provided termination device. All equipment and wiring past that point will be provided and maintained by the customer. Companies may or may not at their option then continue to provide equipment and inside wiring by whatever means (sale, lease or rental) to the customer under non regulated competitive conditions. All companies within our membership have indicated that they will continue to provide necessary services.

The presenters of the Joint Submission rationalize the view that customers should own inside wiring at page 1 of their Final Argument. They stated:

> Customers to be responsible for the provision and maintenance of all equipment and facilities including inside wiring *beyond the network terminating device*. The reasons for this are:
>
> (a) Avoid confusion for the customer.
> (b) Minimize cost for testing and maintenance.
> (c) Permit customer to have greatest options - if interconnect is good we should give customer greatest options available.

CNCP among appearing parties rejected the ownership of inside wiring. At pages 5 and 6 of their Final Argument, CNCP outlined their concerns:

> In this proceeding some telephone companies have adopted the position that they should provide inside wiring only to the point of first entry to a subscriber's premises in the case of one tenant buildings or to a termination point on each floor in the case of multi-tenant, multi-storey buildings: see, for example, Evidence of Northern Telephone Limited, page 7, and Evidence of City of Thunder Bay Telecommunications Department, page 3. Under this proposal, the telephone companies would have no responsibility for providing risers for single tenant, multi-storey premises. Such a situation could give rise to an element of arbitrariness in the provision of inside wiring for telephone subscribers who also subscribe to Telex service: see the testimony of Mr. Cooper on behalf of Northern Telephone Limited, volume 3, pp. 421 *et seq*. There is also the possibility that the provision of risers by subscribers would lead to unnecessary duplication of facilities and to the over-taxing of available space in risers in multi-storey buildings.
>
> In the United States, the FCC Rules treat risers as part of the local loop and it is therefore the obligation of the telephone companies to provide risers in *all* multi-storey buildings. In CNCP's view, the FCC solution represents the preferable course for the OTSC to follow as it ensures that adequate facilities will be available in all multi-storey premises.
>
> The telephone companies' tariffs should require that they furnish and install all necessary inside wiring to the point of connection with the first telecommunications terminal on every local loop. In instances where a subscriber owns its own PABX, for example, this proposal would permit the subscriber to own the inside wiring between the PABX and each telephone handset. On the other hand, since Telex local loops are not wired into the PABX, the telephone company would be obliged to furnish inside wiring to the point of connection with the Telex terminal.

Mr. Zielinski, the witness on behalf of The Director, supported the notion basically from the economic prospective of the efficiencies inherent in competitve supply (see transcript, Volume 7 at page 246 and following). CNCP's concern that customers not provide inside wiring was predicated on the difficulties which such arrangements could pose CNCP in the provision of its Telex and Data services. The CFCW and the International Brotherhood of Electrical Workers were concerned that customer provision of inside wiring would adversely affect employment.

CBEMA's position is that customer provision of inside wiring should be at the option of the customer. CBEMA at page 1 of its comments in response to the May 13, 1983 Notice strongly advocated the proposition that customer ownership of inside wiring should be optional in the following passage:

> Concerning inside wiring, CBEMA members believe that the ability to provide such wiring should be an option available to individual residence and business users. For both residential and business users there may be instances where it is more economic to provide their own wiring or where special requirements on flexibility or routing of wiring make it impractical for the telephone company to provide the wiring.

The CFCW stated categorically that inside wiring should remain the telephone system's responsibility. At page 2 of their comments in response to the May 13, 1983 Notice, the Union states:

> It is noteworthy that the Canadian Ratio-television and Telecommunications Commission in its decision 82-14 on The Attachment of Subscriber-Provided Terminal Equipment, although they permitted customer ownership of the primary instrument as an option and allowed leasing or ownership of inside wiring for multi-line installations, insisted that single-line inside wiring be leased from the telco. Their reasons seem to have been the difficulty of sorting out ownership of various single-line services in a multi-residence building such as an apartment house where some subscribers could be on party lines and therefore leasing, and others might lease and others own outright and the units are subject to change. This objection to single-line inside wiring ownership was very forcibly argued before the CRTC by the counsel for the Province of Ontario.

Hurontario Telephone Limited at page 1 of its response to the May 13, 1983 Notice stated:

> Customers should *not* be offered the opportunity to choose whether they wish to own the primary set and inside wiring or not. Hurontario Telephones strongly believes the best position for both the customer and the telephone company is that the customer own the inside wiring and the telephone set. If deregulation is not acceptable to the government, we strongly urge that they do not go halfway and allow the customer to have the option whether they own or not. We foresee nothing but headaches, hassles and disputes if some of the inside wiring is owned by customers and some is owned by the telephone company.

Northern Telephone Limited also urged the Commission not to permit optional ownership of customer inside wiring. In stating its next best alternative at page 2 of its comments in response to the May 13, 1983 Notice, Northern Telephone Limited stated:

> The Company submits that the next best alternative for single line customers would be for the Company to provide and maintain all necessary inside wiring, since the least desirable and totally unacceptable arrangement would be to have an ownership mix of inside wiring.
>
> If both customer and Company ownership of inside wiring are permitted, we foresee administrative problems arising such as establishing exactly which inside wire is the Company's responsibility and which is the customers'. It would be impractical and costly for the Company to maintain detailed records on the ownership of status of inside wiring. The Company is very concerned that an environment of mixed ownership for inside wire for single line customers will create difficulties for Company personnel as well as for customers.
>
> The rules concerning the provisioning of inside wiring must be as simple as possible to minimize Company cost, negate customer confusion and ensure good service to telephone subscribers.

Thunder Bay made a similar comment at page 2 of its response to the May 13, 1983 Notice:

> Thunder Bay Telecommunications proposes that individual residents or business exchange service customers be offered the opportunity to provide both the primary telephone set and the inside wiring; however, it is our view that mixed ownership of equipment in a customer's premises will result in jurisdictional and administrative problems which more often result in disputes rather than solutions.

The Commission has carefully reviewed all the material before it. The evidence related to the question of inside wiring during the hearing was very extensive but not sufficient to warrant a departure from existing arrangements. Also there has been no evidence of customer demand for the ownership of inside wiring. The evidence before the Commission has offered no viable alternative at this time. Therefore, the Commission has determined that customer ownership of inside wiring including network connecting equipment (telephone jack) should not be permitted. It is the Commission's decision that telephone systems will retain responsibility for the ownership and provision of all inside wiring and jacks.

As the market evolves and customer attitudes are better known, it may be that customer ownership of inside wiring will be in the public interest. In the meantime any subscriber who so wishes may apply to the Commission pursuant to section 91 of The Telephone Act to provide his own inside wiring. The Commission would deal with any such application having regard to its own special circumstances.

4.1.3 Two-Party and Multi-Party Line Service

In section 1.6.3 of its Interim Order No. 4188, the Commission limited the scope of the provision of customer provided terminal equipment to single line service. During the course of the course of the hearing, the Commission heard evidence regarding the issue of terminal interconnection for two-party and multi-party line service.

At page 439 of the transcript and following, Mr. Cooper of Northern Telephone Limited responded to a queston of Mr. Hawkins of Thunder Bay:

> MR. HAWKINS: Just one question, Madam Chairman, if I may. Mr. Cooper, with respect to the attachment of customer-attached terminal devices on multi-party lines, we have discussed a number of reasons I think as to why that should not be permitted. That is built in problems that are associated with that kind of thing. Perhaps errors and mistakes are made by the customer in attempting to attach his telephones to that line. Can you perhaps think of any other reasons as to why the attachment of customer-provided terminal attachments on multi-party lines should not be allowed?
>
> MR. COOPER: Some of the problems that would be faced on the part of our own company is in the situation where we do have some, it is minor some mix of business and residents on the same line. It is conceivable that a business person could have a telecopier or an answering device. A telecopier would probably be a better example. He could be tying up that line for two or three minutes, 10 to 20 minutes. An undue length of time in which case other subscribers would be unable to get that line. There is a pretty clear understanding today that party line service is to be shared and we try to encourage customers to restrict their time and use it for two or three minutes.

There is always the danger of emergency and fires and those kinds of things. If you have a situation where copiers are being used for example, there is no way that other members on that party line could access that line until the use of that copier was done. I think that is maybe not as large a problem or a likelihood, but it is an example of other things that could be provided. I suppose there is always the possibility too, we heard on Wednesday from CBEMA where rural people are going to be looking for access to Telidon terminals and things of that nature. It is again conceivable in rural areas in farm communities where there are three or four parties on a line the same kind of thing can happen. The multi-use of the facilities and again the possibility, the strong possibility that the customer could not break in on the line for emergency purposes.

That could make a real problem in addition to the technical problems of loads and too many parties and improper balancing of the sets on the line as well.

Later Mr. Cooper responded to questions posed by the Commission's counsel where the basis of the question was a billing insert which purported to be issued by the Manitoba Telephone System. At page 448 and following of the transcript, the following exchange took place:

MR. McCALLUM: My question is simply this, Mr. Cooper: if the Commission were to adopt a position that terminal attachment should be permitted and should be permitted on two-party and multi-party lines, would that type of an approach meet the difficulties which you have identified?

MR. COOPER: We have looked at this two-party and multi-party area very carefully and I suppose for the sake of consistency we would like to suggest that the terminal attachment liberalization apply to rural and two-party as we are suggesting to everybody else.

However, we are convinced from the reviewing we have done in this area and the problems and the difficulties that we would encounter suggest to us that we shold maintain control of that set at least for the time being. I think in the evidence yesterday in support of Mr. Finlay talking to the U.S. experience it was certainly accepted that the multi-party was in an area that still had problems. Some of the difficulties - some of the difficulties and maybe I could just elaborate if you would -

MR. McCALLUM: Certainly.

MR. COOPER: It is interesting if this requires a premise visit a service charge will apply. What one could foresee in a situation like that is there is a cost involved. Once the door is open to customers being able to provide their own equipment rural customers included, I think there will be a tendency for all customers to try to connect his own telephone set. If the service charge is considered in his view to be high or unreasonable then he may attempt to put the set in himself and this is likely to cause real problems.

There are technical problems associated with loading the facilities. If a party line - I think Mr. Downs talked to the quantities of telephones that can be put on a party line and it is really related to the number of ringers and, you know, one of the questions that we might have to face is in the case where an eight-party line with eight customers on it and let's say there are four or five extensions on each side in addition because people are taking this kind of service, once you exceed five ringers on one side of the line, you cause transmission problems. Who makes the decision of who removes their sets? We want to balance it up and

that causes problems. There are some sets that are excluded from this list and there are a lot more sets the customer might buy and try to hook them on. Some I believe cannot even be modified to be handled on a multi-party line. In our case if a customer has a set of that nature which we have tried to modify but can't, some equipment requires that the lines be rearranged so that the technical problems can be resolved. That takes time and it takes money, so there are many problems associated with permitting this type of approach in a multi-party and two-party area of this kind.

I would guess that over time and engineering people, the people with the technical experience may be able to resolve it but we are convinced that there are too many problems associated with it, many opportunities for us to get into confrontations or arguments with our customer about who is at fault, who should pay and we think for simplicity initially anyway that we should retain control of the set in that environment.

Mr. Downs, who spoke for the Joint Submission, also gave evidence on this point at page 302 and following of the transcript. After a lengthy and illuminating discussion of the difficulties associated with ringing and automatic number identification, Mr. Downs answered the following questions posed by the Commission's counsel at page 310 and following of the transcript:

MR. McCALLUM: Now, Mr. Downs, at the set, if the Commission did permit the customer ownership of terminal devices on party lines and stipulated that such equipment be brought to you first to ensure that it was compatible with the line in question would you have any objection to that?

MR. DOWNS: There is a problem there because not all sets can be modified for party lines. Some sets can only be used on individual lines with tip ringing.

MR. McCALLUM: Well suppose someone brought you one set and you looked at it and said, "Yes, that is suitable for modification," and perhaps even undertook to modify the set for him and sent it back out, would you have any objection to the set being hooked up under those conditions?

MR. DOWNS: He brought to us a set that was modifiable?

MR. McCALLUM: Yes.

MR. DOWNS: I guess if proper rates and everything were established for it these things could be accommodated.

MR. McCALLUM: If someone brought you a set that wasn't capable of modification you would just tell him so I guess?

MR. DOWNS: Yes.

It appears that certain problems can arise when customers on party lines hook up their own equipment without the knowledge of the telephone system. The Commission is most concerned that these problems be avoided to the greatest extent possible and believes that it is far better to permit the provision of customer provided terminal equipment on two-party and four-party lines than to prohibit it. If it is permitted rules can be established to ensure that the provision of telephone service continues with no disruption. If it is not permitted customers may attempt to hook up their own equipment notwithstanding, thus causing network problems and billing errors.

In response to May 13, 1983 Notice, Thunder Bay provided several examples of misunderstandings which it had encountered with its customers regarding the improper installation of customer equipment. At page 5 of its comments, Thunder Bay gives two examples of difficulties on two-party and multi-party lines:

Example #5 - 142 Burns Road
Trouble reported - Trouble on line
Trouble found - Customer-connected equipment on a rural line (party line)
Action - Customer equipment disconnected and charged $43.25 service charge

Example #7 - Second Side Road, Murillo
Trouble reported - Customer answering party lines' rings
Trouble found - Subscriber connected own telephone set on a ± -party line
Action - Customer equipment disconnected and customer assessed $43.25 service charge Customer complained extensively

The Commission is of the opinion that these difficulties might not have arisen had customers been permitted to attach their own equipment subject to rules. The Commission also considers it imperative that the rules governing CPTE be explained not only to two-party and four-party customers but to all customers who provide their own equipment.

The Commission has examined the extent of customers currently taking two-party and four-party line service. As of December 31, 1982, the breakdown of customers for all independent territory is as follows:

Single party - 133,959 (78.9%)
Two-party - 16,934 (10.0%)
Four-party - 11,015 (6.5%)
Multi-party - 7,870 (4.6%)

Having regard to the fact that 16.5% of customers on two-party and four-party line service would benefit from the attachment of customer provided terminal equipment, the Commission believes that it is in the public interest to permit such attachment subject to rules.

The Commission has reviewed very carefully the evidence given at its hearing and is of the opinion that the scope of terminal attachment should be expanded to include the attachment of single line telephone sets to two-party and four-party line service subject to the rules as established in section 1.0 of this Order.

The Commission has excluded multi-party customers from this Order because all telephone systems subject to its jurisdiction are working toward a 1985 deadline for upgrade to four-party service in the rural territory. Since completion of these upgrades has occurred in some systems and is imminent in others, the Commission believes that it is not in the public interest to permit CPTE on multi-party lines.

Also, the Commission has limited the scope of terminal attachment at this time to single line telephone sets for two-party and four-party line service. The Commission considers that to allow the attachment of terminal equipment of a more complex nature such as key sets or other types of automatic equpiment might result in long holding time on the telephone line to the detriment of other parties on the same line. The Commission will closely monitor this particular aspect of terminal attachment.

Specifically when a customer wishes to attach a single line telephone set to a two-party or four-party line, the Commission requires such equipment must be brought to the telephone system's office and inspected to ensure that it will function properly on the line. Where inspection and modification if required to the set is provided, telephone systems will charge such rates as filed and approved by the Commission. Since the Commission considers that two-party and four-party customers should have the ability to attach customer provided terminal equipment within a reasonable time period and as it is a requirement of the telephone system to ensure that there is no adverse affect to the network, the Commission requires that such rates be filed for approval within ninety (90) days of the date of this Order.

4.1.4 **The Small Telephone System Prohibition**

In Interim Order No. 4188, the Commission permitted attachment of customer provided terminal equipment only to those systems with 1500 main stations or more. In coming to this determination, the Commission had regard to a number of factors which it outlined at page 10 of its Reasons for the Interim Order:

> The decision to differentiate between larger and smaller systems was made having regard to the Commission's decision adopting the Uniform System of Accounts. It was the Commission's opinion that systems with less than approximately 1500 main stations would have insufficient resources to administer the Uniform System of Accounts. Similarly, the Commission is of the view that relatively small telephone systems may not have the resources to deal with the potential consequences of terminal interconnection in a timely fashion. More importantly, it is the Commission's view that if terminal interconnection should create any upward pressure on telephone rates, it may be the customers served by the small systems who will be affected to the greatest extent. If, during the interim period, telephone systems with less than 1500 main stations have any evidence, circumstantial or otherwise, which is relevant to this issue, the Commission will accept and consider a submission before rendering a final decision.

The Commission has reviewed the material received in regard to its request for comments of May 13, 1983. Only CBEMA and Thunder Bay addressed this question in a substantive way. It was their opinions that unless harm was demonstrated that as a matter of principle the small system prohibition should not be retained.

With respect to possible negative revenue impacts, the Commission has had no conclusive evidence of any revenue impairment (see section 4.3.1). The Commission also finds it significant that neither the Ontario Telephone Association nor any small system has come forward to provide any rationale for the continuation of this prohibition. Accordingly, in making its final determination on this subject, the Commission has decided not to continue the small system prohibition and has decided that the provisions of this Order should be equally applicable to all telephone systems subject to its jurisdiction.

4.1.5 **Customer Information**

The Commission is concerned that customers of the telephone systems should have available to them all information in respect to customer provided telephone equipment. In this regard the Commission has directed all telephone systems to give proper notice to their customers by means of an insert in their monthly billing. The Commission strongly suggests that the telephone systems by the vehicle of their Association (OTA) formulate a uniform notice that may be used by all systems to notify their respective customers. The Commission is prepared to assist in the preparation of this written notice.

4.2 **ISSUE 2**

THE IMPACT OF CUSTOMER PROVIDED TERMINAL ATTACHMENT ON THE NEEDS OF TELEPHONE SUBSCRIBERS, CARRIER RESPONSIVENESS AND THE QUALITY OF SERVICE GENERALLY.

As stated in section 3.0 of this Order, the Commission indicated its view that competition in the provision of terminal equipment is in the public interest. The evidence of the Ontario Hospital Association (Appendix B to its submission of April 30, 1982 at page 5 and following) details the experience of the members of the Association regarding the degree of the satisfaction in providing for their telecommunications needs solely through a single serving carrier. The Commission takes this evidence to be supportive of the proposition that in the absence of competition, a single carrier supplier is less likely to be immediately responsive to the needs of its subscribers.

Mr. Kannen of Mid Canada pointed out during the public hearing, the difficulties and apparent inequities which arise when different rules apply in essentially the same geographical area. At pages 317 and 318 of the transcript, Mr. Kannen made the following statement:

> Some geographical areas in Northern Ontario fall under the CRTC control while others fall under OTSC jurisdiction. There is currently a great variety of equipment which in some localities can and in other localities cannot be attached to network facilities due to the different approaches taken within these two jurisdictions. Subsequent to the CRTC decision 80-13 the Northern Ontario market has been divided between these two jurisdictions resulting in a dichotomy which allows a customer in a certain geographical area to interconnect while another, while not allowing another customer, in some cases less than 15 miles away, to enjoy the same benefit. We believe this is contrary to the public interest.

The Commission is of the view that customer needs in the territory of systems subject to its jurisdiction are not very different from customer needs in adjacent territory. The Commission is also concerned that if the needs of customers are not dealt with in a manner consistent with those in adjacent territory, confused and dissatisfied customer reaction may result.

In elaborating on CBEMA's brief during the public hearing, Mr. Murray on behalf of the Association also commented on the desirability of customer choice and indicated the Association's preference for such an adaptation of the federal decision. At pages 14 and 15 of the transcript, Mr. Murray stated:

> MR. MURRAY: We believe that these developments have been in the public interest and that now, as many of these products or services utilize communication facilities, it continues to be in the public interest to permit users to have this choice of equipment and this choice of supplier. We believe that only a competitive environment can meet the user's needs and not the supplier to never meet this variety of user demands that now exist.

To create this environment, therefore, it is essential that users be able to provide and attach whatever equipment best meets their own requirements. If the equipment is to be attached to telephone lines by the user, it is of course necessary to have standards that such equipment must meet. So that the equipment will not harm the telephone network. Manufacturers, suppliers and users will all enjoy cost benefit. If the standards apply to a very large marketplace, unnecessary cost will be incurred and users may be restricted, however, in their choice if standards are not universal.

The members of CBEMA urge the Commission to assit the development of a uniform business environment in Canada and to provide this same benefit to subscribers of the independent telephone systems in Ontario as exist for subscribers of Bell Canada in Ontario, by ensuring liberalized terminal attachment and by adopting the forthcoming decision of the federal CRTC in terms of terminal equipment attachment and finally the forthcoming decision of the CRTC and the standards and procedures which apply to such attachment.

Mr. Charles Zielinski in his filed testimony at page 9, made the following statement:

In examining the terminal equipment business, we found no evidence to suggest that it was a natural monopoly. First, the equipment is not a monolithic product such as might conceivably be most efficiently supplied by a single firm: there is no comparison between cubic feet of gas or kilowatt-hours of electricity and data sets or switchboards. And, second, there is no evidence to suggest that the manufacture of this kind of equipment is characterized by such dramatic economies of scale that individual regulated firms can do it more efficiently than a variety of competing companies.

The Commission has heard evidence or argument that would support the proposition that the provision of terminal equipment is *not* a natural monopoly area in the provision of telecommunications services. Also there was further evidence that competitive market in this area is more responsive to the needs of users of the telecommunications system in Ontario. Accordingly, the Commission finds that the provision of terminal equipment should be a competitive market.

In setting out Issue 2, the Commission wished to address the possible difficulty that customer provided terminal equipment could adversely affect the quality of service in Ontario. Technically, there is no reason why the ownership of equipment by customers rather than telephone systems should of itself adversely affect the quality of service. Indeed where a customer has elected to provide his own terminal equipment in accordance with appropriate technical standards the only quality risk he bears is the one he himself incurs through his own choice.

The availability of good maintenance facilities to customers who provide their own terminal equipment was discussed during the course of the public hearing. While the Commission believes that many companies providing interconnect facilities will provide good maintenance programs, absence from the physical location of the facility is likely to delay repair to equipment failures in the more remote serving territory. Yet if these customers are to have a choice in providing their own equipment, they must at the same time weigh the relative advantages of the independent supplier and the telephone carrier to provide maintenance.

Thunder Bay addressed service quality from a different perspective - that of unauthorized connections. Unauthorized connections of customer owned terminal equipment may very well lead to service quality and related problems in the manner which Thunder Bay describes. However, unauthorized connections would create the same problem whether or not some form of customer provision of terminal equipment were allowed. It is just as likely that such activities would take place in territory where connection is permitted as

where it is not, particularly since customer ownership is permitted in other parts of the province. No one can be responsible for the unauthorized activities of others. This is one reason why the Commission has permitted CPTE for two-party and four-party line service as described. Nevertheless, the difficulty of unauthorized connections, as the province as a whole moves to a liberalized atmosphere in the provision of customer provided terminal equipment, should be addressed through the establishing of tariffs for visits to customer premises where no fault is found with the telephone systems equipment. As well there are other possible measures available under The Telephone Act where unauthorized attachment has interfered with the provision of telephone service.

4.3 ISSUE 3

THE IMPACT OF CUSTOMER PROVIDED TERMINAL ATTACHMENT ON THE REVENUES, THE COSTS AND THE RATES OF THE TELEPHONE SYSTEMS.

The effect of customer provided terminal equipment on carrier revenues, costs and rates has been of concern to the Commission. As noted earlier in these Reasons, the Commission specifically included a small telephone system prohibition in its Interim Order No. 4188 partially because of the concern that severe financial hardships might result. The Commission wished to have some period of time during which to assess any information provided by the telephone systems regarding the revenue impact of customer provided terminal equipment through operational experience.

4.3.1 Carrier Revenues and Costs

The contention that permitting customers to provide their own terminal equipment will result in a negative impact on telephone system revenues is based on two assumptions. Firstly, the cost savings to the telephone system will be minimal in relation to the revenues lost. Evidence indicated that any cost savings will fall far short of offsetting the expected loss in revenues. Secondly, the loss of an alleged cross subsidy from revenues of terminal equipment to basic services will result in an upward pressure on basic telephone rates to compensate for the loss.

Both of these assumptions and the conclusion of a negative revenue impact is based on the premise that terminal equipment revenues not only cover all the related costs but also provide a return to the telephone system in excell of the return realized from basic telephone services.

The Commission was not presented with any conclusive evidence which would either confirm or refute the assumption that competition in terminal equipment will result in a negative financial impact. Nevertheless, the Commission received a number of submissions that assumed that a loss would in fact occur.

Among the comments received from the telephone industry on this point, the Commission particularly noted the following.

The Ontario Telephone Association at pages 3 and 4 of its filed comments made the following statement:

> The impact on revenues will depend on the extent that CPTD's are permitted and the degree of penetration of competition. Information obtained as a result of the C.R.T.C. interim decision concerning Terminal Attachment in Bell Canada service area indicates that penetration in the Canadian Market is much deeper than that experienced in the U.S. It is assumed that rates for basic services will be "unbundled" prior to CPTD's being permitted. Therefore, existing revenues

for terminal equipment together with the "station connection" component of the "unbundled" rate will be subject to competition. In addition, service charges will have to be "unbundled" with a portion of these also being subject to competition. It is therefore, safe to assume that regulated revenues as we now know them will be reduced as a result, and should compensating decreases in costs not be experienced, regulated revenues will have to be increased.

and then further on page 4:

Currently, Vertical Services provide a contribution to revenues and help to offset the cost of providing local service.

In elaborating on the brief of the OTA, Mr. Stevens made the following comment at pages 461 and 462 of the transcript:

Loss in vertical or if you wish premium services will result in a loss in revenue. Our reductions in cost will not equal the reduction in revenue. This is particularly pronounced with small telephone systems that will not be able to reduce staff. The final result of tis net revenue reduction will be an increase in telephone rates.

Before Mr. Finlay questions whether vertical services are making a positive contribution to our revenue I would like to inform him of several facts.

(a) Before we can introduce vertical services the rate must be approved by the OTSC. The calculation of these rates which the OTSC scrutinizes includes a rate of return. The OTSC insists that this rate of return is equal to or greater than our overall rate of return and in practice this rate of return is admittedly higher than the overall rate of return, often doubled.

When questions were asked of Mr. Stevens and Mr. Dunn of the OTA by Mr. Finlay, counsel for the Director, the following exchange took place at pages 467 and 468 of the transcript:

MR. FINLAY: Now, I want then to come to the point that you alerted me to in your submission which was the fact that you are permitted a greater rate of return on your terminal equpment than you are with respect to other local service offerings and that was proof that in fact there was a cross-subsidization. I take it other than that fact do you have any other evidence with which you could assist this Commission on this point?

MR. STEVENS: I will let Mr. Dunn answer that question.

MR. DUNN: No, not really as far as studies are concerned and so on but Mr. Cooper this morning testified and we have had the same experience in some of the other independent companies where they do make application for vertical services, whatever you want to call it, the rates of return we have been allowed, the companies have been allowed on those items have been in excess of the average rate of return which our operations have earned.

MR. FINLAY: If we accept that then other than that fact there is no other evidence you can point us to to support the proposition, there is in fact cross-subsidization?

MR. DUNN: No, not in the Ontario industry. I would suggest perhaps some of the information which we were looking at yesterday which your own witness did put forth, also in the case of some of the people below the border might also agree with the position your witness was taking.

Thunder Bay made comment on this topic in Issue 3 of its written submission in the following passage:

> The Department cannot, at this time, quantify to what degree customer provided terminal devices could impact on rates and revenues. Currently, vertical services provide a major contribution to revenues and assist in maintaining a reasonable basic service rate. Basic rates must beunbundled, optional services which will become competitive will be driven closer to actual costs and priced at market value. Assuming a loss in the market share and revenue of optional services, the Department feels to continue to provide good basic telecommunications service, rates for basic telephone service will increase at a greater degree than would have been previously required in a non-competitive environment. Further impact in revenues will result as service charges will also be subject to competition.

and further:

> The Department maintains that a two to three year period will be required to determine actual impact on revenues.

During questioning at the hearing, Mr. Hawkins of Thunder Bay answered questions by Mr. Finlay, counsel for the Director. The following exchange took place at page 178 and following of the transcript:

> MR. HAWKINS:... Essentially I believe that the revenues from terminal equipment, in fact the reverse may be true that revenues from terminal equipment may in fact cross-subsidize local exchange service. We in our organization attempt to identify all of the costs associated with terminal equipment and our applications to the Commission for tariffs reflect all of those costs so there we attempt to show that there will be no cross-subsidization from basic exchange service to terminal equipment.
>
> MR. FINLAY: Am I being fair to you, sir, when I say you cannot be sure today whether in fact there is a cross-subsidization flowing from the terminal equipment portion into your local service portion?
>
> MR. HAWKINS: I cannot quantify it.
>
> MR. FINLAY: To be quite fair, don't we have to go a little further and say that you cannot in fact be sure that there does exist such a cross-subsidization?
>
> MR. HAWKINS: I would have to say I am reasonably sure that there is no subsidization of terminal equipment from basic exchange service.
>
> MR. FINLAY: My question is the other way. My question is simply that today from your point of view you cannot be sure that in fact there is a cross-subsidization flowing from the terminal equipment portion into your local service portion?
>
> MR. HAWKINS: I would suggest that there in fact may be some cross-subsidization from terminal equipment into the local exchange portion, however I cannot quantify it.
>
> MR. FINLAY: I am just trying to be absolutely fair with you. You say there may be. My point is with respect to the assistance you can provide this Commission today with respect to the issue of cross-subsidization from terminal equipment to local service, you cannot categorically advise this Commission this morning that in fact there is such a cross-subsidization?

MR. HAWKINS: No, I think that would be correct.

MR. FINLAY: Thank you.

I take it that you do not have available to you this morning to assist this Commission any study data or other empirical material that would assist this Commission further with respect to your statement of cross-subsidization flowing from terminal equipment into the local service?

MR. HAWKINS: No, I do not.

Northern Telephone Limited addressed the question of possible impacts on revenues and costs at pages 13 of its written comments:

The Company has not attempted to quantify the impact which customer provided terminal attachments could have on the revenues, the costs and the rates of the Company.

and further on page 14:

Presently in the monopoly environment, optional services are provided by the Company at rates which are approved by the Commission. Significant revenues are earned from these services and in a competitive terminal attachment environment these revenues would be excluded in the determination of the allowed rate of return for the regulated Telephone Operations.

The Commission will realize that the Company receives only a terminal commission on long distance services and the Company's rates for local service do not benefit from a higher level of cross-subsidization from long distance service revenues. This situation could be compounded since higher rates for regulated services may be required to provide a reasonable rate of return on the regulated rate base if there is any lost contribution due to erosion of the Company's revenue in a competitive terminal attachment environment.

and further on page 14:

Costs such as capital expenditures, maintenance, administration, and other operating costs may decrease due to loss of market share while cost increases may result from a more complex operating environment, shorter life spans for terminal apparatus (higher depreciation accruals) and higher maintenance cost due to repair visits associated with customer provided terminal equipment.

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During the public hearing, Mr. Cooper of Northern Telephone Limited answered questions on this subject. At page 398 of the transcript the following exchange took place between Mr. Cooper and Mr. Finlay:

MR. FINLAY: I would like to bring you to page 13 of your submission. In particular that first paragraph and would you object again if I inserted the phrase "if any" at this point.

"the company has not attempted to quantify the impact (if any) which customer-provided terminal attachments could have on the revenues of the costs and the rates of the company."

MR. COOPER: I think that would be fair in view of what we don't know.

Mr. Zielinski, a witness called on behalf of the Director, addressed the question of revenue impacts. At page 20 and following of his prefiled evidence, Mr. Zielinski made the following comments:

MR. FINLAY: What was the experience of the New York Commission during your tenure with respect to the impact of terminal attachment on basic residential subscriber rates?

MR. ZIELINSKI: The Commission looked carefully at the argument that terminal equipment competition would result in increases in the rates for basic residential exchange service. This argument was based on two premises. Its first premise was, briefly, that telephone companies priced all terminal equipment - except the basic black telephone instrument itself - far above its cost. This supposedly enabled them to price basic residential service below cost and still generate sufficient revenues to cover their total costs. The second premise was that each piece of equipment a telephone company lost to competition would result in the loss of a "contribution" to basic service from interstate toll rates, because 20 percent of the costs of terminal equipment are recoverd from interstate toll rates via a cost separation and revenue settlement process.

In two major rate cases involving the New York Telephone Company, during the summer and fall of 1975, the New York Commission staff presented a study of that company's terminal equipment offerings in the aggregate which demonstrated that revenues fell dramatically short of covering the company's embedded costs as of 1974-75 - by $264 million before a partial rate award in August of 1975, and $225 million before the commission's decision in November of that year - tis at a time when the company was claiming a need for $390 million of additional revenues in total, preponderantly because of *1975* and anticipated *1976* increases in costs. The staff, it was conceded by all parties, used cost figures from the company's own books, and the very same methods - the same mark-ups above direct costs for maintenance, overhead and return - that the company itself regularly employed in justifying proposed individual tariff offerings to the Commission. The company had every opportunity to rebut the staff's evidence in these cases. A majority of the Commission found that it failed to do so.

Moreover, so far as the New York Commission could tell, the shortfall in terminal equipment revenues was being made up preponderantly by the allocation of 20 percent of its costs to interstate toll rates through the cost separations process.

and further on page 22:

MR. FINLAY: During your time with the New York Commission, did Rochester Tel ever claim in its general rate cases that one result of its own interconnection program was upward pressure on basic telephone service rates?

MR. ZIELINSKI: No such claim was made during my tenure and the Commission did not detect this kind of pressure in its own study of Rochester Tel. The rise in Rochester Tel's basic service rates since 1973, when the interconnect program started, have been roughly in line with the general inflation rate. Competition has not been the cause of increases in the rates for local residence service.

During the course of the hearing, Mr. Zielinski was asked several questions which related to applicability of American studies to the matter before the Commission in relation to the Ontario independent telephone industry. At page 228 of the transcript the following exchange took place between Mr. Rand, counsel to Northern Telephone Limited and Mr. Zielinski:

> MR. RAND: In connection with the studies that you have done to date, would any of the studies have involved material from Canadian telephone companies, system companies?
>
> MR. ZIELINSKI: The studies that are included in my testimony are ones that were performed by the New York Public Service Commission and had we included Canadian companies we would probably have been asked why we were wasting our resources to look at Canadian companies. No, we did not.

Further at pages 234 and 235:

> MR. RAND: My question was quite specific and maybe I should make it more detailed so you will comprehend. I am wondering whether the kinds of conclusions that you reached in the studies you mentioned were reached by other studies prior to this era of interconnection.
>
> MR. ZIELINSKI: Not to my knowledge but I thought your earlier question was whether attempts had been made at such studies or whether studies had been done, in fact were costing studies done albeit I am now aware that they reached a level of sophistication because of the difficulty of identifying costs that the studies in the 1970's reached. The studies in the 1970's were really an evolution of efforts occurring well before the era of competition.

Having regard to all the evidence the Commission is not persuaded that in total the provision of terminal equipment by telephone systems is so profitable that it provides significant subsidies to other service categories. The inability of the independent telephone industry to quantify the alleged contributions is a major factor in the Commission's determination. The evidence of Mr. Zielinski tended to support the proposition that the provision of terminal equipment was the recipient of a subsidy in studies performed in the State of New York. The Commission, however, cannot be satisfied that this is the case with respect to the telephone systems which it regulates. Mr. Zielinski's evidence related to American companies operating under different rate relationships and were performed after a measure of interconnection had been achieved. While the same results may be true in Ontario, there is no formal analysis before the Commission which deals with the matter in the Canadian context.

While the Commission has no formal analysis before it with respect to revenue cost impacts, and believes it is unlikely ever to have such analysis, it does have the interim experience. The Commission has received no information from telephone systems in response to its requests which suggest that significant revenue impairment has or will occur.

4.3.2 Carrier Rates

In defining Issue 3, the Commission was principally concerned with rates from the point of view of whether or not carrier rates for other service categories would be significantly affected by the introduction of terminal interconnection. In the foregoing discussion, the Commission has had no evidence to date that a serious revenue impairment to carriers has occurred as a result of the interim experience. It follows therefore that no serious rate dislocations are likely to result in the other service categories. If the provision of terminal equipment has been a donor of a

subsidy to other service categories, it would appear that the subsidy has not been significant. Similarly, if the provision of terminal equipment has been a recipient of subsidy from other service categories, the subsidy has not been substantial.

While the Commission, on the basis of the evidence received does not expect that traditional rate relationships will be extensively altered by the introduction of customer provision of terminal equipment, it is aware that a new approach to the structure of the tariff for local rates will have to occur in order to provide the appropriate institutional arrangements for the offering of this service by the telephone systems and the interconnect suppliers. A competitive market, in the Commission's view, necessarily implies new rules and new tariff structures. The details of the Commission's position on these points will be set out later in these Reasons when terms and conditions of carriers participation and rate unbundling are discussed.

4.4 ISSUE 4

THE EFFECT OF CUSTOMER PROVIDED TERMINAL ATTACHMENT ON TELECOMMUNICATION MANUFACTURERS AND SUPPLIERS.

In outlining this issue, and as a public policy determinant, the Commission must be concerned with whether or not its decisions are going to have severe adverse impacts in other areas of Ontario which would be deliterious to the Province of Ontario as a whole.

The Canadian Business Equipment Manufacturers Association addressed this question at pages 10 and 11 of its written comments. The Association stated:

> CBEMA belives that the expanded use of equipment in Canada that will result from liberalized attachment and the new opportunity to sell directly to the end user of this equipment will provide an important and viable market for existing and for new manufacturers in Canada.
>
> The variety of equipment required, the opportunity for innovative products, the advanced state of telecommunications facilities in Canada, and the expanding use of telecommunications services are all positive factors supporting the development, manufacturing and supply of attachment equipment in Canada.
>
> A recent article in the Globe and Mail (Feb. 27, 1982) refers to 150 new telephone equipment interconnection companies competing for the Canadian market. This activity represents a substantial new business development which should contribute positively to the Canada economy, and to the needs of Canadians for customer owned terminal equipment.

There is little other information or argument before the Commission on this point. To the extent that this consideration should affect its decision, the Commission is satisfied that any impacts on Canadian manufacturers and suppliers are of such a magnitude that it should continue the fundamental decision to permit the customer provision of terminal equipment.

4.5 ISSUE 5

THE TECHNICAL STANDARDS AND THE METHOD OF COMPLIANCE WHICH SHOULD APPLY TO CUSTOMER PROVIDED TERMINAL DEVICES

The question of standards is important to the disposition of the terminal interconnect question principally because faulty equipment connected to the network can cause some harm to the whole system. The provision of appropriate standards has been addressed by technical groups with substantial resources in both Canada and the United States. The Terminal Attachment Program Advisory Committee (TAPAC) of the Government of Canada, Department of Communications has systematically approached the question dealing with terminal equipment, category by category, developing appropriate certification for equipment so that its connection to network will not result in any harm. Also, the Federal Communications Commission of the United States has undertaken a similar program.

In its Interim Order No. 4188, the Commission made the following orders regarding standards for the connection of customer provided equipment by systems subject to its jurisdiction:

1.6.1 The customer provided terminal equipment and connecting device have received certification under the Government of Canada, Department of Communications, Terminal Attachment Program and/or have been certified to meet Part 68 of the Rules and Regulations of the Federal Communications Commission of the United States of America.

1.6.2 The customer terminal equipment is appropriately equipped to interface with the telephone system by means of (a) a connecting device compatible with the telephone system provided connecting device or (b) an acoustical or induction connection in which case condition 1.6.1 is not applicable.

On review of the record and in light of the comments received, the Commission has decided that these sections of Interim Order No. 4188 should be amended.

The specific details of standards which could adequately protect the network were never fully discussed before the Commission. Given the resources available to the industry and to the Commission, this is not surprising. The detail of what particular technical parameters is sufficient to protect the network is an area which the Commission believes neither it nor the systems which it regulates should be required to develop. The question which ought to be addressed is which of the available sets of standards should the Commission adopt and under what circumstances having regard to its own mandate. Even on this more limited question, the Commission did not receive comment in great quantity. Nevertheless, those who did address the question did so in thoughtful well reasoned manner.

Northern Telephone Limited at page 21 of its Final Argument, referred to CBEMA's views and made the following comments:

In its written submission dated April 30, 1982 on page 12 CBEMA stated,

> "CBEMA urges the Commission to order the adoption of the standards which are approved by the C.R.T.C. for the federall regulated carriers in the terminal attachment decision expected soon from that agency."
>
> The Company supports the Commission in giving consideration to areas in which it is practical to have consistency and supports CBEMA's positions as referred above.

> The Company submits that the subject of technical standards is one where regulations must be consistent throughout Ontario and to the extent possible compatible throughout Canada.

The witness for CBEMA, Mr. Murray testified at page 17 of the transcript that:

> I will take the single-most important example of course. If you can assume that attachment will be permitted it will be terribly costly, exceptionally burdensome to we as suppliers, if we had to face a number of different attachment standards across the country and I earnestly hope to avoid that.

The Canadian Business Equipment Manufacturers Association made similar comment at pages 14 and 15 of its final argument in the following terms:

> CBEMA urged the Commission to order the adoption of the standards which are approved by the CRTC for the federally regulated carriers. We pointed out that a number of other agencies are accepting the DOC standards, and we believe this move towards a uniform program deserves the full support of the OTSC. (35)
>
> Under questioning by Mr. McCallum, Mr. Murray, of CBEMA, pointed out that there are still differences of opinion on the DOC standards and that we hope that the CRTC final decision will resolve these disagreements satisfactorily. He stated: "Now, having said that, we still are optimistic that those standards can be made meaningful and practical and workable. Having said that, we say that those standards can be resulting in something that the industry feels is a good standards and we need only one standard across the country. We should not now be considering different standards in different jurisdictions." (36) We believe that all parties who commented were in agreement with this position.

The Director of Combines Investigation and Research expressed a similar view on pages 15 and 16 of his Final Argument:

> The Commission has been presented with evidence in particular from CBEMA to the effect that as the attachment of subscriber owned equipment develops as a regulatory policy across Canada, the prospect of differing provincial technical standards becomes an increasing concern. The representative of CBEMA, Mr. Murray, went so far as to suggest that this Commission await and adopt the forthcoming decision of the Canadian Radio-television and Telecommunications Commission (CRTC) respecting this matter. It is significant in this regard that the Alberta Public Utilities Board has recently endorsed the concept of national technical standards for the purposes of attachment of subscriber owned terminal equipment. Furthermore, it is noteworthy that as a constitutional matter there is little doubt that the CRTC has jurisdiction over technical standards that apply to all equipment attached to the Trans Canada Telephone Network.
>
> In the Director's submission, the Ontario Telephone Service Commission should in its final decision rule that as a matter of policy national standards will apply to the attachment of terminal equipment to the telephone systems within the Commission's jurisdiction. It is also submitted that in the event that the Commission decides in favour of a liberalized terminal attachment policy, that the Commission adopt the CRTC standards and approved equipment in place at the time of the decision.

The Commission is convinced that the adoption of technical standards which will to the greater degree possible be consistent with those in force in other parts of the Province of Ontario is in the public interest. The Public Utilities Commission of Prince Edward Island also was required to address the question of appropriate standards for the connection of customer provided terminal equipment to network of the telephone systems subject to

its jurisdiction. It would appear that that Commission found itself in a similar situation to that of this Commission. At page 21 of its Order No. T.83.05.03, the Commission stated:

> There was a consensus at the hearing that the FCC Standards are designed primarily to guard against damage or harm to the network, while CS-03, in addition to protection to the network, provides for a minimum level of quality of service involving the called and calling parties.
>
> The Commission is inclined to agree that is is essential to have a standard that is uniform throughout the country. On 23 November 1982, the Canadian Radio-television and Telecommunication Commission ("CRTC") issued Telecom Decision No. 82-14 in which the CRTC made the finding that Certification Standard CS-03 was appropriate for use by certain carriers under its jurisdiction. CS-03 thus appears to be well on the way of becoming the accepted Canadian standard. Having considered this matter, the Commission as well believes that DOC Certification standard CS-03 is the most suitable standard for adoption by ITELCO. We accordingly make the finding that the proposed regulation is appropriate.

Bell Canada provides by far the greatest preponderance of telephone services in the Province of Ontario. Attachment of customer provided terminal equipment to Bell Canada's network is governed by the final decision of Canadian Radio-television and Telecommunications Commission. The Canadian Radio-television and Telecommunications Commission rendered its final decision on this matter in CRTC Telecom Decision 1982-14 on November 23, 1982. At pages 60 and 61 of that decision, the CRTC made the following determination:

> The Commission is of the view that all terminal equipment to be attached to the facilities of the federally regulated carriers should be subject to a single technical standard and that the appropriate standard is CS-03. The Commission has not been convinced that, in comparison with FCC Part 68, the performance standards included in CS-03 give rise to any significant differences. Moreover, the Commission is confident that, in its ongoing work, TAPAC will modify CS-03 where necessary to meet new requirements and changing circumstances. Consequently, subject to the phasing-in periods hereinafter set out, only terminal equipment which meets the equipment and installation requirements of the current issue of Certification Standard CS-03 approved by TAPAC may be attached to the carriers' networks.

The Ontario Telephone Service Commission accepts as a matter of principle that a uniformity of certification is desirable. The Commission is also pleased that Canadian certification which meets the requirements of the federal regulator is available through the Terminal Attachment Program of the Government of Canada. The Commission is therefore prepared to modify its requirements as set out in the Interim Order No. 4188 and for the present permit only the attachment of terminal equipment which is certified under this Program as it may be amended and/or extended from time to time through such publications as CS-03.

Any terminal device which has been attached pursuant to Interim Order No. 4188 is hereby approved for continued connection so long as such equipment may remain in use.

4.6 ISSUE 6

THE RULES GOVERNING THE PARTICIPATION OF A TELEPHONE SYSTEM OR SUBSIDIARY OF A TELEPHONE SYSTEM IN THE MARKET FOR THE PROVISION OF CUSTOMER PROVIDED TERMINAL DEVICES

Significant public policy questions arise with respect to the participation of carriers in the provision of customer provided terminal devices. The origin of these questions is

quite simple to define. The concerns are that the telephone systems have a significant advantage in the competitive market. Customers have dealt virtually exclusively with the telephone systems; telephone systems have access to customers profiles through their records which interconnect companies do not have; telephone systems control network access; telephone systems can influence rate relationships.

The fear is often expressed that telephone systems will use the advantages which they have to unfairly compete with other providers of terminal devices. The Commission considers that participation of the telephone systems in the market for customer provided terminal equipment should be subject to rules to ensure that telephone systems do not unfairly compete. A number of potential difficulties and solutions are discussed in the extensive literature, both Canadian and American, related to these problems. Most of the principal ones are either discussed or alluded to in the material which has been submitted to the Commission as a result of the current proceeding.

It remains then to outline the terms and conditions which should apply to telephone systems in participating in the market for the provision of customer provided terminal equipment.

4.6.1 **Separate Subsidiaries**

The position has been advanced that telephone systems should only be permitted to compete through "arms length" subsidiaries to ensure that they compete on an equal footing with other suppliers.

The Director of Combines Investigation and Research at pages 18 and 19 of his Final Argument, favoured a separate subsidiary:

> It is submitted that under a deregulated scenario, a separate subsidiary is the best mechanism to ensure that cross-subsidization of competitive activities from monopoly revenues does not occur to the detriment of subscribers and competitors. However, the Commission should retain overall regulatory authority to adjudicate complaints.
>
> The regulated carriers have argued that the costs of establishing a separate subsidiary exceed the benefits. The Director submits that there is no evidence of this on the record.
>
> Accordingly, the Director submits that as a threshold requirement any carriers wishing to engage in the sale of equipment on a "deregulated" basis should be required to do so through a separate subsidiary. However, in the event that any carrier is able to come before the Commission and conclusively demonstrate that the cost of establishing a separate subsidiary exceeds the benefits, then the Commission may wish to consider withdrawing for that particular carrier, the separate subsidiary requirement.

With respect to the alternative of separation through appropriate costing techniques, the Director commented at page 20 of his Final Argument on the lack of proposals:

> ...none of the carriers have offered in the course of this hearing examples of the type of cost allocation procedures they have in mind. The Director submits that the emphasis must be upon the telephone company's ability to present the Commission with a cost separation procedure which will afford the effective policing of the company's terminal equipment activities by the Commission. A fully distributed cost allocation methodology is the only type of costing methodology which would permit the Commission to come to terms with the problem of cross-subsidy, although in the Director's view this is a second best solution compared to separate subsidiaries.

The Canadian Business Equipment Manufacturers Association also appears to favour a separate subsidiary. At page 16 of its final argument, CBEMA made the following comment:

> CBEMA believes that accounting and allocation techniques to account for and allocate costs and revenues to the competitive and non-competitive sectors of a carrier's operations are most important. We recognize that this is not a simple procedure, as illustrated by the CRTC Cost Inquiry which has been ongoing for many years. However, we look to valuable guidance from the current phase of the CRTC's Cost Inquiry. Furthermore, we believe as stated in our submission, that as essential as accounting controls are, they should be supported with structural separation to prevent cross-subsidies. Such structural separation alleviates the accounting problem by creating an easily recognizable boundary across which transactions can be recorded, and reduces the number of shared activities for which expenses must be allocated between sectors.

The Ontario Telephone Association at pages 2 and 3 of its Final Argument advocated the use of accounting separations rather than the separate subsidiary approach. The OTA stated:

> Throughout the hearings we heard much about the necessity of being certain that the regulated areas of our future business not subsidize the non regulated terminal area. The position of the Association is that the Uniform System of Accounts, as proposed by the Commission, can be modified to ensure proper separation of revenues and costs. The Association does not feel that it is necessary to separate the non regulated portion of the business by the formation of subsidiary companies. In fact should such rulings be made the municipal and public utility systems would be prohibited from competing in the market place. We understand the concern of others than no unfair cross subsidization should occur, but we also want to be able to compete in the market place without having our hands tied by unnecessary controls.

Northern Telephone Limited at page 18 of its written submission, also stated the company's preference for accounting separations:

> ...the competitive terminal attachment activity of the Company would be conducted from within the existing corporate structure, separated from the regulated Telephone Operations by the creation of the accounting and costing procedures necessary to show that unregulated services in total are not being subsidized by monopoly subscribers. No other Commission rules governing the Company's acitvities in a competitive environment are necessary.

Mr. Zielinski provided testimony both in his prefiled evidence and during the public hearing concerning this question. At pages 257 and 258 of the transcript, the following exchange took place between Mr. Zielinski and Mr. Stevens of the OTA:

> MR. STEVENS: One other area and that is regarding cost separation from the regulated and non-regulated sectors of a company's operation. You mention in your paper that you didn't see the necessity of setting up subsidiary companies to do that. Can you elaborate on that from your experience?
>
> MR. ZIELINSKI: What I say in my paper that the judgement of whether one should or should not require a subsidiary should be done on the weighing of costs and benefits associated with it. As a general proposition, the smaller companies, yes. The less likelihood that the benefits associated with a separate subsidiary will outweigh its costs. One can argue.

That is because the smaller the company is the more likely it is that the regulatory commission can properly police that company without the need for a separate subsidiary. The company is small enough so that the regulatory commission can scrutinize its operations pretty closely. The larger a company gets the more difficult it gets for the regulator. If a particular analysis varies with the regulatory commission involved. If you have available to you a regulator with a fairly large staff obviously your ability to police those transactions is greater than if you had a relatively small staff.

So those factors it seems to be all have to be weighed in the balance in determining where you will apply separate subsidiary requirement and where you don't.

Having considered the evidence and argument before it, the Commission has decided that it ought not to require the telephone systems to compete in the terminal attachment market through a separate subsidiary. The Commission is doubtful that the development of a separate subsidiary is of legal availability to some systems. Also the Commission agrees with Mr. Zielinski that the requirement for a separate subsidiary might be an undue burden on small telephone systems. The Commission also believes that the value of a separate subsidiary may be more apparent than real. When there is a requirement that a separate subsidiary exist, the Commission would still be obliged to monitor transactions across the corporate interface to ensure that no cross-subsidization occurred between parent and subsidiary.

The Commission believes that appropriate accounting separatins are a more practical means of delineation of the two lines of business. The Commission, however, has taken note of the Director's comments that as yet no proposal is before the Commission which outlines a costing methodology to satisfy regulatory needs. The Director's comment that cost separations should be on a fully distributed basis is theoretically sound but vague in the operational sense. Mr. Cooper's assurance at page 359 of the transcript that Northern Telephone Limited is "confident that we can continue to provide the Commission with adequate data to separate competitive and non-competitive services" was not supported by any quantitative analysis.

When a telephone system is engaged in the sale of terminal equipment, the Commission will require that the costing of the equipment be in detail sufficient to demonstrate to this Commission that there is absolutely no burden upon the system's customers as a result of sales of terminal equipment activity. In order to demonstrate this to the Commission's satisfaction, telephone systems are required to justify the method used to allocate indirect costs and fixed common costs in the sale of terminal equipment. Although the Commission is not prepared at this time to establish a methodology for use by all of the thirty-one telephone systems, the Commission requires the systems, either individually or collectively, to make proposals outlining their intentions for the costing of the sale of terminal equipment.

4.6.2 **Sale of Terminal Equipment**

The Commission believes that telephone systems subject to its jurisdiction should be permitted to sell new equipment in like manner as other suppliers of terminal devices. The Commission, as will be discussed more fully in Issue 7, does not believe the sale price of such equipment is a "rate" within the meaning of section 1 of The Telephone Act and therefore is not subject to rate approval. Maintenance contracts associated with the sale of new equipment similarly are not considered by the Commission to fall within the definition of "rate" and does not

require approval pursuant to section 105. The Commission expects that costs and revenues associated with sale of new equipment and associated maintenance contracts will be reported as revenues and costs separate from all other revenues and costs in accordance with the Uniform System of Accounts as it may be amended from time to time.

4.6.3 **Financial Leases**

The Commission is aware that much fiancing for the acquisition of major capital acquisitions is done through financial leases. The financial lease, in the Commission's view, is equivalent of a sale. The Commission therefore is of the opinion that a financial lease entered into between a customer and a telephone system is not a transaction which falls within the definition of "rate" in section 1 of The Telephone Act and is not subject to approval pursuant to section 105 of The Telephone Act. Similarly maintenance contracts associated with financial leases are not to be subject to approval pursuant to section 105.

The definition of a financial lease is one which is open to interpretation. The Commission accepts the Canadian Institute of Chartered Accountants (CICA) definitions as the basic evidence for the existence of what we have termed here to be a financial lease. At section 3065.03 of CICA Handbook, the following definitions are found:

(a) Capital lease is a lease that, from the point of view of the leasee, transfers substantially all the benefits and risks incident to ownership of property to the lessee.

(b) Sales-type lease is a lease that, from the point of view of the lessor, transfers substantially all the benefits and risks incident to ownership of property to the lessee and, at the inception of the lease, the fair value of the leased property is greater or less than its carrying amount, thus giving rise to a profit or loss to the lessor (usually a manufacturer or dealer).

(c) Direct financing lease is a lease that, from the point of view of the lessor, transfers substantially all the benefits and risks incident to ownership of property to the lessee and, at the inception of the lease, the fair value of leased property is the same as its carrying amount to the lessor (usually not a manufacturer or dealer). A lease would not be precluded from being classified as a direct financing lease after it is renewed or extended even though the carrying amount of the property at the end of the original lease term is different from its fair value at that date.

And further section 3065.06 of CICA Handbook specifies the following conditions as the indicia of a capital lease:

From the point of view of a lessee, a lease would normally transfer substantially all of the benefits and risks of ownership to the lessee when, at the inception of the lease, one or more of the following conditions are present:

(a) There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term. Reasonable assurance that the lessee will obtain ownership of the leased property would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option.

(b) The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. Although the lease term may not be equal to the economic life of the leased property in terms of years, the lessee would normally be expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75% or more) of the economic life of the leased property. This is due to the fact that new equipment, reflecting later technology and in prime condition, may be assumed to be more efficient than old equipment which has been subject to obsolescence and wear.

(c) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any portion thereof relating to executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property at the inception of the lease.

The Commission views leases which conform with section 3065.03 as stated above to be financial leases for the purpose of this Order.

In this regard it is useful to refer to a number of applications for Tier A and Tier B rate stability pricing in respect of rental charges and maintenance charges for terminal equipment. Where Tier A is a financial lease and Tier B is an associated maintenance fee, the Commission believes such applications are unnecessary as they do not fall within the purview of section 105. As will be discussed later under Issue 7, applications for Tier A and Tier B rate stability pricing may be appropriate when the transaction is not equivalent to a sale and do not meet any of the three financial criteria.

The Commission therefore expects that transactions in the nature of financial leases and associated maintenance contracts will be accounted for in the same manner as sales of new equipment.

4.6.6 **Sale of In-Place Equipment**

In a competitive environment, where a customer has the intention of owning the telephone equipment on his premises the telephone system faces two alternatives. The telephone system may either sell the equipment currently on the customer's premise provided by the system on a monthly rental basis or alternately, remove the equipment from the premise thereby allowing the customer to provide his own equipment for connection to the telephone system network. Given the two alternatives, the Commission believes it to be inevitable that systems will prefer to sell the in-place equipment to the customer and believes it to be in the public interest that the telephone systems be permitted to sell in-place equipment.

If the sale price of the equipment is based solely on the principle of market value the telephone system will be in an advantageous position relative to its competitors. Therefore, the Commission finds that a telephone system may sell in-place telephone equipment and should attempt to ensure that the sale price is not less than all costs related to the sale plus the undepreciated capital cost of the asset.

East system must keep a separate record of proceeds received from the sale of in-place equipment. The Commission will determine the proper regulatory treatment of these transactions after reviewing experience and the cost separation plans.

4.6.5 **Rentals or Other Leases**

Rentals or other leases which do not come within the term "Financial Lease" which the Commission has described in this decision, the Commission believes fall within the definition of "rate" in section 1 of The Telephone Act and consequently must be approved in accordance with section 105. Similarly maintenance charges associated with such equipment, to the extent that they are not included in a flat rate, must also be approved in accordance with section 105.

The Commission does not expect such revenues to be recorded separately as in the case of the sale of new equipment or financial lease arrangements.

4.6.6 **Other Considerations**

In this section, the Commission has set out, with as great a precision as it can, the terms and conditions which it expects the telephone systems subject to its jurisdiction to adhere to in competing in the terminal equipment market. The Commission believes it has a duty to continue to monitor the telephone systems' activities to ensure that these terms and conditions continue to be fair and are uniformly applied.

4.7 ISSUE 7

THE NATURE AND EXTENT OF THE COMMISSION'S JURISDICTION TO MAKE ORDERS DEALING WITH CUSTOMER PROVIDED TERMINAL ATTACHMENT PARTICULARLY WITH RESPECT TO THE CURRENT TARIFFS OF THE TELEPHONE SYSTEMS UNDER COMMISSION JURISDICTION AND OTHER QUESTIONS OF LAW.

The Commission requested that interested parties address certain legal questions in relation to its jurisdiction to permit customer provided terminal equipment to be attached to the telephone systems subject to its jurisdiction. The Commission is grateful to those who made comment.

Throughout earlier portions of these Reasons, the Commission has made comment which imply a legal determination of some of the questions involved in this issue. Nevertheless, the Commission wishes to provide in further detail the legal rationale for its decision.

4.7.1 **Regulation and Deregulation**

In much of the material filed and throughout the hearing, many parties addressed the provision of customer provided terminal equipment in a competitive market as deregulation of this portion of the business. The Commission, in these Reasons, has avoided using the term deregulation. Deregulation implies the total removal of regulatory scrutiny from some aspect of an industry which was formerly regulated. The Commission's intention in promulgating its General Order is to permit customers to provide their own terminal equipment pursuant to section 91 of The Telephone Act. The Commission has also determined that telephone systems ought to participate in this market on a competitive basis to the extent that the law will permit them to do so. While this decision implies the removal of many aspects of rate regulations it does not imply the complete removal of regulatory scrutiny of the telephone systems activities in this area. The Commission's intention is that telephone systems compete without the necessity of rate approvals; however, it is also the Commission's intention that the systems should compete in a fair manner through a structure of accounting separations which will remain the subject of regulatory scrutiny.

The Commission therefore believes that although less regulation is required with respect to rate approvals, sufficient regulatory involvement remains that the term "deregulation" is misleading.

In the remainder of this section, the Commission will set out its views on the legal framework within which it believes the attachment of customer provided terminal equipment must take place.

4.7.2 **The Obligation to Serve**

Telephone systems subject to Commission jurisdiction are under a general legal obligation to provide service in accordance with section 89(1) of The Telephone Act. This section reads as follows:

> Every telephone system shall furnish continuous telephone service that adequately and efficiently meets the needs of the public in the territory in which it operates.

This section of The Telephone Act requires that a telephone system furnish telephone service in the territory in which it operates. The Commission has no jurisdiction to relieve telephone systems of this general obligation.

The Commission has been given full jurisdiction to ensure that telephone systems provide service to the public in accordance with the intent of section 89(1). The Commission has jurisdiction under section 90 to require that a telephone system provide facilities. This section reads as follows:

> The Commission may make such orders for the construction and maintenance of a plant as it from time to time considers necessary in order to ensure adequate and efficient telephone service to the public and for the protection of life and property.

It is in the context of section 89(1) and section 90 that section 91 must be read.

The current proceeding addresses te Commission's jurisdiction to relieve telephone systems of the obligation of owning all the plant which is used in connection with the provision of service. Section 91 of The Telephone Act grants to the Commission a permissive jurisdiction to allow parties other than telephone systems to own such equipment. This section reads as follows:

> Every telephone system shall own and maintain all equipment, except run-off poles on private property, operated in connection with the system, unless otherwise consented to by the Commission.

It is in the general context of the obligation to serve contained in section 89(1) of the Act that the Commission must determine the extent of its jurisdiction under section 91 in the first instance.

It is the Commission's view that section 89(1) confers a right on the public to receive continuous telephone service from a telephone system within the terms of that section. A telephone system must therefore be in position to provide the service described in section 89(1) whether or not a customer chooses to provide his own terminal equipment in accordance with a General Order of the Commission made pursuant to section 91. Where a telephone system fails to provide such service in accordance with section 89(1), the Commission has jurisdiction to order such provision pursuant to section 90. In practical terms, it is the Commission's view that telephone systems subject to its jurisdiction must continue to provide service to those customers who wish it according to the traditional rules set out in The Telephone Act and in accordance with the Orders of the Commission. This General Order permitting customer provision of terminal equipment, in no way diminishes the responsibility of a telephone system to provide service including terminal equipment.

4.7.3 The Ability to Compete

At page 382 of the transcript, Commission counsel identified several aspects of the legal ability of telephone systems to compete in the provision of terminal equipment with other suppliers and requested parties to address the issue in their arguments. Counsel's request at page 382 was as follows:

> MR. McCALLUM: Madam Chairman, if I may this morning I would like to refer to pages 353 and following of yesterday's transcript where Mr. Rand and Mr. Cooper were discussing the extent of the Commission's jurisdiction to make orders under the provisions of The Telephone Act affecting the ability of the Commission to permit telephone companies under its jurisdiction to compete on an unregulated basis.
>
> It is my view, Madam Chairman, that this is a very important issue and one which the Commission would be greatly assisted in by as full an argument on the matter as possible and it would be my suggestion, Madam Chairman, that the Commission request parties to the extent of their ability to address in their final argument in this matter that very question, that is, having regard to Sections 105 and 06 of The Telephone Act together with any other applicable sections, whether or not telephone companies subject to this Commission's jurisdiction can compete on an unregulated basis in the leasing of terminal devices, the sale of terminal devices, the sale in place of terminal devices and the provision of inside wiring.

At page 383 of the transcript, the Chairman accepted counsel's suggestion. Few parties provided the Commission with extensive argument on this point. Therefore the Commission has had to rely primarily on its own analysis in arriving at a determination of these difficult questions.

Earlier in these Reasons, the Commission has determined that it will not permit generally customer ownership of inside wiring at this time. Therefore the question for determination is: can telephone systems subject to the Commission's jurisdiction compete in the market for the provision of customer provided terminal equipment:

a) through the sale of equipment,
b) through the sale of in-place equipment,
c) through the leasing of equipment?

a) Sale of Equipment

Essentially the question is: may a telephone system sell equipment for connection to its network? The Telephone Act contains no provision which would prohibit a telephone system from participating in any other business. There is no exclusivity of solely telephone exchange service assigned to the telephone systems. Therefore, it is the Commission's view that a telephone system may lawfully sell equipment for connection to the network of its system subject only to other provisions of The Telephone Act.

The more critical question with regard to the sale of equipment by a telephone system is whether or not such a transaction is subject to the terms of section 105(1) of The Telephone Act. This section reads as follows:

> Every telephone system shall file with the Commission its tariff of rates and tolls in such form and containing such particulars as the Commission requires and no system or municipality shall charge or levy any rate or toll that has not been filed with and approved by the Commission.

The Commission must determine whether or not the sale price of equipment is a rate or toll which must be filed and approved by the Commission pursuant to section 105(1).

These two terms, "rate" and "toll", are defined in section 1 of the Act as follows:

(g) "rate" means any rental or charge for supplying telephone exchange service and all services associated therewith;

and

(j) "toll" means any charge, other than a rate, for the transmission of telephone messages.

The term rate contains two elements:

- supplying telephone exchange service for a rental or charge
- services associated with supplying telephone exchange service for a rental or charge.

The Commission is satisfied that the sale of equipment is not a part of the first element of the term rate. Telephone exchange service in the Commission's view should be given the meaning implied by the plain understanding of the words. It is the Commission's view that telephone exchange service is merely providing access to the telephone exchange.

Nor in the Commission's view can the sale of equipment be equated with a service associated with the provision of telephone exchange service. The sale of telephone equipment was distinguished from services by CNCP. At page 5 of its final argument CNCP stated:

> If a telephone company rents or leases inside wiring or terminal devices the charges are clearly charges for a "service" associated with the supply of telephone exchange services. As such, they must be approved by the Commission. On the other hand, the sale of goods or property is not a "service" within any accepted definition of that term. As only charges for "services" fall within the ambit of the Telephone Act, it follows that the sale price of in place terminals and inside wiring does not require regulatory approval.

The Commission is persuaded by CNCP's analysis and is of the view that it was not the Legislature's intention that the sale price of any article be the subject of rate approval.

b) **Sale of In-Place Equipment**
The Commission adopts the same view of the sale of in-place equipment as it does of the sale of new equipment. Since there is no prohibition a system may lawfully sell in-place equipment in accordance with the terms of this Order.

c) **Lease or Rental**
Except where a lease is a sale equivalent, the Commission is of the view that rental rate or charge is a rate within the meaning of The Telephone Act and accordingly must be approved pursuant to section 105(1) of the Act. Earlier in these Reasons, the Commission has defined what it considers to be sale equivalents by reference to the CICA Handbook definitions (section 3065.03).

4.7.4 **Other Questions of Law**

Several of the arguments filed on behalf of the telephone industry raised questons of law which are not directly related to the Commission's jurisdiction. The Ontario Telephone Association raised the question of the Gross Receipts Tax and the Retail Sales Tax at page 3 of its final argument in the following passage:

> As stated in our evidence and presentation the Association is of the opinion that changes will have to be made in the Municipal Act and the Municipal Tax Act to exclude from Gross Receipts those revenues which will be realized from the unregulated terminal device market. In addition the Retail Sales Tax will have to be examined to ensure that we are able to compete fairly with the interconnect companies without having the burden of certain sales taxes which they are not required to collect or pay.

The Commission is of the view that these are important matters for consideration. The Commission, however, does not have the jurisdiction to deal with certain questions which are raised by the Association. As several Acts of the Ontario Legislative so mentioned are beyond the Commission's mandate, the Commission would suggest that the Ontario Telephone Association bring these matters to the attention of the appropriate Ministries of the Crown, so that whatever action is deemed necessary, may be taken.

5.0 RATE UNBUNDLING

IF CUSTOMERS ARE OFFERED THE OPPORTUNITY TO PROVIDE EITHER OR BOTH THE PRIMARY TELEPHONE SET AND INSIDE WIRING, HOW SHOULD THE MONTHLY FLAT RATE BE UNBUNDLED TO REFLECT THE DIFFERENT COMPONENTS SUCH AS ACCESS CHARGE, TERMINAL SET CHARGE AND/OR INSIDE WIRING CHARGE? (MAY 13, 1983 NOTICE)

It should be noted that in section 4.1.2 of this Order the Commission has rejected the proposal to permit customers to provide and own inside wiring.

The Commission's decision regarding the attachment of customer provided terminal equipment to systems subject to its jurisdiction requires that it deal with several aspects of rate unbundling and associated tariff matters. Telephone systems were specifically asked to address this issue in Interim Order No. 4188 and in the Commission's Notice of May 13, 1983. While a new regime has to a certain extent been instituted as a consequence of its Order, the Commission considers that tariff modifications necessary to implement its Order need not necessarily represent a drastic departure from the traditional approach to telephone rate making and regulation. The Commission in this Order has permitted customers to provide their own terminal equipment if they wish to do so. The associated rate structure modifications must reflect this departure from the historic manner in which telephone service has been provided.

Rate structure modifications however, need not and indeed should not go further than is necessary to implement this Order.

The Commission has clearly stated that a telephone system *must* provide all facilities necessary to attach customer equipment including the inside wiring and the connecting device. The telephone system must also provide the terminal equipment in accordance with section 89(1) of The Telephone Act if the customer chooses to have a telephone system do so. A customer may provide his own terminal equipment and relieve the system of its obligation. The institutional arrangements are not complex and the tariff structure modifications ought not to be complex either. The basic result to be achieved is that where a customer has provided his own terminal equipment, he should not be charged that rate. The customer similarly in providing his own equipment must compensate the telephone system for costs which it incurs in dealing with troubles caused by the connection of such equipment.

In analyzing the rate unbundling issue, the Commission has dealt with four distinct tariff areas. These are:

1. Network connection - the installation of all facilities necessary to accommodate customer provided terminal equipment.

2. Network Access Charge - the continuing monthly rate associated with access to the network.

3. Terminal Equipment Rental Charges - the rate for the provision by the system of items of terminal equipment.

4. Service Charges - charges assessable where cost is incurred by the telephone system because of the connection of customer provided terminal equipment.

These four categories are in the Commission's view sufficient to provide an analytical framework for the adjustment necessary for the accommodation of the provision of customer provided terminal equipment.

5.1 **Network Connection**

The Commission's Order does not significantly alter the work function which a telephone system must perform to provide for the connection of terminal equipment to the network of the system. The telephone system in the ordinary course on installation performs this function and charges an installation fee. Unless and until the Commission receives information to the contrary, it can see no rationale for disturbing current installation charges. So far as the service performed for connection to the network is concerned, it is immaterial whether the equipment being provided is the property of the telephone system or the property of the customer.

Accordingly, the Commission will not at this time order any change to the network connection or installation charges currently charged pursuant to tariffs filed with the Commission. The Commission, however, would encourage all systems to utilize the Multi Element Service Charge (MESC) methodology. If it can be demonstrated that current installation charges are in anyway unfair either to the telephone system or to the customer, the Commission will review such material and if it deems it to be in the public interest adjust rates for network connection accordingly.

5.2 **Network Access Charge**

Historically, the network access charge or the monthly rate has included a charge for a basic telephone set. Where optional or vertical services were provided such as premium telephone sets or PBX equipment, these rates have been separately calculated and filed with the Commission. In effect premium telephone sets and business systems such as PBX equipment have been unbundled since their inception. What remains to be unbundled is that portion of the monthly rental charge attributable to the network access charge where a customer provides his own terminal equipment whether it is of a basic or premium type.

Northern Telephone Limited, in its response to the May 13, 1983 Notice, set out conceptually the basis for the simple calculation of the two elements of the charge. At page 3 of the response, Northern Telephone set out the following equation:

PRIMARY TELEPHONE SET ONLY CUSTOMER PROVIDED:

	Basic Exchange Service
Less:	**Telephone Set**
Equals:	**Access Charge** (including inside wiring)

The Commission is of the view that Northern Telephone's simple equation is a most rational approach to the unbundling of local service rates.

Thunder Bay views rate unbundling in a similar fashion and has attempted to quantify the rates which would result. At pages 3 and 4 of its response to the Notice of May 13, 1983 Thunder Bay made the following statements and put forward specific calculations.

An example of an unbundled rate for Thunder Bay Telecommunications' customers is as follows:

Monthly Residential Rate (at current rates)

Access Charge	-	$ 4.05
Telephone Set	-	.95
Individual Resident's Total	-	$ 5.00

Monthly Business Rate

Access Charge	-	$ 9.70
Telephone Set	-	.95
Total Business Monthly Rate	-	$10.65

Thunder Bay postulates that the value of the basic terminal equipment of the flat rate is 95¢. The Commission has not been provided with cost material which would justify this specific amount. However, the Commission is of the view that such an amount appears to be a reasonable amount at this time.

The Bruce Municipal Telephone System also put forward comments on rate unbundling in response to the May 13, 1983 Notice as follows:

2.a) **Rate Unbundling**
The inside wiring should be donated to the existing customers at no cost and the rate base carry the investment until it has been depreciated.

b) In place telephone sets would be offered to the existing customers at a nominal fee.

c) The unbundled rate would then be the access charge which would be the existing exchange rate reduced by the cost of supplying the primary set (.80¢ to $1.00/month).

The Commission has previously given its reasons for requiring telephone systems to provide their inside wiring and set out guidelines for the sale of in-place equipment. The Commission notes that Bruce Municipal Telephone System would assign an amount for the equipment rental portion of the rate which is consistent with that proposed by Thunder Bay.

The Commission considers that the network access charge portion of the monthly residential and business rate should be calculated by reducing the applicable monthly flat rate by the amount of 95¢.

5.3 **Basic Telephone Set Rate**
Where a customer chooses to take the basic telephone service from a telephone system the monthly rate for the basic telephone set will be 95¢.

5.4 **Premium Telephone Set Rate**

Currently filed tariffs for premium telephone sets are based on a monthly flat rate. The Commission is aware that after rate unbundling, the premium telephone set rate will be an increment to the network access charge. The Commission, however, in this Order, does not intend to directly adjust the rates for premium telephone sets. Systems wishing to increase premium telephone set rates should apply to do so prior to issuing unbundled rates.

The Commission has taken this approach with respect to premium telephone sets because it believes that telephone systems will have to review premium telephone set rate relationships during the course of rate unbundling in the context of a competitive market for these sets.

5.5 **Service Charge**

The Commission is of the view that customers providing their own terminal equipment must bear any increased costs that the telephone systems incur as a result of the connection of the customers' equipment. Where a customer occasions a trouble visit because of faulty equipment or illegally connected equipment the cost of such a visit should be borne by that customer and not the general body of customers.

The Commission therefore invites telephone systems to file with the Commission tariffs for customer premise visits which are caused through no fault of the telephone system but are related to customer provided terminal equipment. Such tariff should be cost related and contain no punitive or deterrent element.

Chairman.

ORDER NO. 4304

Tuesday, the 20th day of December, A.D. 1983

BEFORE

V.W. Bielski, Q.C., Chairman,
D.A. Austin, Member, and
G. Klosler, Member.

IN THE MATTER of sections 6(1), 12 and 105 of The Telephone Act, (R.S.O. 1980, c.496),

and

IN THE MATTER of an application by Northern Telephone Limited for approval of a change in rates for local telephone service.

HEARD AT:

Timmins - October 17, 1983;
Iroquois Falls - October 18, 1983;
New Liskeard October 19, 1983;
Toronto November 24, 25, 1983.

APPEARANCES:

For: Northern Telephone Company, Limited,
- M.W. Cooper, President and Chief Executive Officer;
- E. Whitby, Corporate Accounting and Regulatory Matters;
- M. Baker, Business Office Manager, New Liskeard;
- M. Slywchuk, Business Office Manager, Timmins;
- D.B. Sirola, Director Engineering and Planning;
- M.C. Rand, Counsel.

For: North Eastern Ontario Municipal Association,
- E.R. White, Chairman.

For: Town of Iroquois Falls
- L. Cutten, Mayor;
- R. Flageole, Councillor;
- J. Buchan, Clerk.

APPEARANCES, cont.

For: Iroquois Falls Chamber of Commerce,	- P. De La Plante.
For: Temiskaming Federation of Agriculture,	- D. Ramsay, President.
For: City of Timmins,	- D. Welin, Alderman; - F.P. Krznaric, Alderman.
Individual Appearances,	- V. Trembly; - W. Layte; - L. Montreuil; - R. Ptok.

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1.0 ORDER

UPON THE APPLICATION of Northern Telephone Limited (NTL), hereinafter referred to as the Applicant, for approval of an increase in local service rates, and upon reading the said Application and other material filed, and upon evidence presented during the hearing,

1.1 THE COMMISSION HEREBY AUTHORIZES, under and in pursuance of sections 6(1), 12, 90 and 105 of The Telephone Act, (R.S.O. 1980, c.496), the Applicant to increase local service rates to generate additional annual revenues of $381,000.

1.2 THE COMMISSION DENIES any increase in business or residence multi-party rates.

1.3 THE COMMISSION ORDERS that the Applicant prepare and submit to the Commission for a revised rate structure which will generate total additional local service revenues of $381,000 annually based upon the estimated average revenue producing units in service during 1984, as shown in NTL JUL 83, Exhibit 1.

1.4 THE COMMISSION FURTHER ORDERS that the proposed rate structure be filed in alpha-numeric order by USOC code.

1.5 THE COMMISSION FURTHER ORDERS that the Applicant upgrade all of the existing multi-party customers to a minimum of four-party service by December 31, 1986.

1.6 THE COMMISSION FURTHER ORDERS that the Applicant submit, within 60 days of the date of this Order, a detailed plan for the 1984-1986 period of the date of this Order, a detailed plan for the 1984-1986 period indicating all of the activities required to complete the rural upgrade program to a minimum of four-party service for rural telephone customers.

2.0 BACKGROUND

The Applicant's last rate application was filed with the Commission in July, 1982. At that time the Applicant had requested an average rate increase of approximately 17 percent. Although the Commission's analysis of the rate application was completed in January of 1983, rates did not become effective until March of the same year. The Commission's findings are detailed in Order No. 4198, dated January 18, 1983. In the Order the Commission concluded that the Applicant had an additional revenue requirement of $547,000, based on a 1983 test year, which subsequently resulted in an average rate increase for services effected of 4.6 percent.

In July, 1983, four months after the rate increase became effective, NTL filed for a further increase in rates. This application sought $1,189,000 in additional local service revenues for 1984, based upon a 1984 test year. If the application was approved in full, this would have required an 11.3 percent average increase in rates affected by the application, commencing January 1, 1984 and rates be increased twice within a twelve month period.

The filing of the rate application with the Commission by the Applicant was followed by a notice of the proposed rates to each of the Applicant's customers. The notice indicated that intervenors' written submissions were to be filed on or before August 29, 1983. The Commission received approximately 40 individual submissions, including resolutions from the Corporation of the Town of Hearst, the Town of Iroquois Falls, the Corporation of the Township of Black River, Matheson, Township of Moonbeam, City of Timmins, Casey Township, and the Neoma (Northeastern Ontario Municipal Association). The Commission also received a petition from approximately 300 of NTL's customers in the Timmins area. Primarily, the intervenors opposed the rate increase proposed by NTL as well as complaints in respect to service problems and high line loads.

After receiving the submissions the Commission decided to hold three field hearings in the territory served by the Applicant. Notices were placed in local newspapers on October 5 and 12, providing information with respect to the time and place.

On October 17, 1983, a public hearing was held in Timmins and on October 18, 1983, a second public meeting was convened in Iroquois Falls. There were a number of complaints regarding multi-party service. The third and final public field hearing was held in New Liskeard on October 19, 1983. In New Liskeard the Commission heard from Mr. David Ramsey, President of the Temiskaming Federation of Agriculture who said that the Applicant's rural upgrade program was proceeding much slower than the original plans called for. He expressed a concern that when the rural upgrade program is finally completed in five years time, that four-party telephone service will be obsolete. Farmers in the territory served by NTL will require private line service in order to benefit from current and future on-line interactive information systems. The Commission's findings on the Applicant's rural upgrade program are detailed in section 11 of this Order.

During the processing of this rate application the Commission requested replies for approximately 115 interrogatories from the Applicant. These requests for additional information primarily dealt with the financial aspects of NTL's performance, the rate application as well as its construction activity. The replies to these interrogatories facilitated the analysis of the rate application, and culminated in a financial hearing held in the Commission's office in Downsview, on November 24 and 25, 1983.

The financial hearing was public and the Commission heard an oral submission from Alderman D. Welin and Alderman F. Krznaric on behalf of the Corporation of the City of Timmins. They requested that the rate increase be limited to 5 percent and that the Commission obtain a firm commitment from the Applicant to provide extended area service (EAS) between the communities of Timmins, Connaught and Kamiskotia. The Commission's findings on this specific issue are found in section 11 of this Order. The hearing dealt with many aspects of the rate application, including the forecast of 1984 toll revenues, costing of business information services, the sale of terminal equipment, rate structure, the digital program, and the Applicant's record and plans regarding the rural upgrade program.

During the course of processing the rate application, the Applicant filed new information regarding the 1984 test year which had a significant impact on the additional revenue requirement.

Most notably was a filing identified as Exhibit 4, submitted on September 29, 1983. In this filing the Applicant amended 1984 long distance service revenue by $437,000, depreciation expense by $106,000, and the requested return on equity from 13.7 percent to 14.0 percent. The net impact was a reduction in the additional revenue requirement from $1,189,000 to $748,000. In effect, the revisions amounted to a new rate application and had the additional revenue requirement increased, the Commission may have required the Applicant to refile the rate application and advertise the revised rates. Since the additional revenue requirement was reduced, the Commission decided not to delay the review of the application by requiring a revised application. Nevertheless, the Commission has examined each of the Applicant's adjustments in detail and the Commission's findings on these and other financial and quality of service matters are contained in the following sections of the Order.

3.0 TEST YEAR

The Appliant originally requested total additional revenues of $1,189,000 based on a 1984 test year. Based on the information contained in the application of July 1983, this was the estimate of additional revenue required from local services in order to provide the Applicant with a 13.7 percent return on average common equity in 1984. In reply to interrogatory OTSC26JUL83-601,

NTL indicated that the 1983 financial data contained in the rate application was based on 3 months actual data and 9 months estimated data. This means, of course, that the forecasts used in the 1984 test year had been estimated 9 to 21 months in advance. The risks of using a fully forecasted test year have been well documented in previous Commission Orders, (Order Nos. 3949 and 4198), but risks of a future test year require a significant portion of the Commission's time in evaluating the reasonableness of the forecasts. The risks associated with the forecasting of particular items, such as 1984 interest rates and interest expense, are great and the Commission will continue to hold the Applicant responsible for substantial variances between the forecasted and actual results of specific amounts.

4.0 REVENUES

The Commission has accepted the Applicant's estimates of local service and miscellaneous operating revenues for the purpose of determining an additional revenue requirement in this rate application. However, the Commission has concerns over the Applicant's estimate of 1983 and 1984 toll revenue and these are discussed in detail in section 4.1.

4.1 Toll Revenues

4.1.1 NTL/ONTC Toll Agreement

On Sepember 29, 1983, the Applicant filed new evidence with the Commission which stated that "On September 14, 1983, the Applicant received notification from the Ontario Northland Transportation Commission (ONTC) that the 5% revenue settlement supplement for message toll, inwats and outwats services would be extended through to December 1984". As a result of this long distance supplement, NTL estimated that the forecasted 1984 Long Distance Service Revenue of $8,989,000 would increase by $437,000. Upon receipt of this information interrogatory OTSC30SEP83-112 was issued requesting NTL's calculation of the $437,000 increase. After examing the Applicant's reply and reviewing the evidence during the financial hearing, the Commission has found that of the additional $437,000 in long distance service revenue expected by the Applicant in 1984, $388,000 is derived from message toll, $15,000 from Outwats, and $34,000 from Inwats. The Commission is satisfied that the Applicant has made a reasonable attempt at estimating the additional revenues from the ONTC 5 percent revenue settlement supplement. However, the Commission has made an adjustment to the Applicant's estimate of 1984 gross tolls. As a result of the adjustment discussed in the next section, the Commission must also revise the 5 percent supplement for 1984 by $10,000. In addition to the adjustment to the 5 percent supplement, the Applicant also revealed during the course of the financial hearing that the estimate of 1984 other toll revenue is underestimated by approximately $85,000 and the Commission has included this as an adjustment.

In reply to interrogatories OTSC040CT83-107, 108, 109, and 111, the Applicant provided some information demonstrating how its own toll expense is calculated for the year. Since the Applicant will now be obligated to pay less to ONTC for use of the long distance facilities, the company toll expense will be proportionately smaller. The Commission estimates that the introduction of the 5 percent supplement for 1984 will reduce company toll expense by approximately $14,000, and this adjustment has been included in the calculation of the additional revenue requirement.

4.1.2 Forecast of 1984 Long Distance Service Revenues

Forecasting long distance service revenues can be particularly troublesome. There are a number of factors which will have a significant influence on revenue,

including changes in toll rates, change in calling patterns, and revisions to toll settlement procedures. Increases in toll rates approved by the CRTC for Bell Canada are normally implemented by ONTC, which is the provider of most toll services in the Applicant's serving territory. At the time of writing the Commission is not aware of any plans on the part of Bell Canada or ONTC to revise toll rates in 1984. Similarly, revisions to toll settlement procedures are difficult to forecast. Although traffic agreements between a telephone system under the Commission's jurisdiction and any other telephone system require approval under section 96 of The Telephone Act, such agreements are usually the result of a process of negotiation and this process is not always complete before the test year commences.

In this application, however, the Commission does have the necessary information regarding changes to the NTL/ONTC Traffic Agreement. This adjustment is examined and explained in section 4.1.1.

Calling patterns are somewhat more predictable, and the method employed by the Applicant to forecast calling patterns is based on a trending of long distance service messages billed, and a consideration of current and future economic conditions. Since 1975, NTL has witnessed the following growth in long distance service messages billed.

TABLE 1

NTL LONG DISTANCE SERVICE MESSAGES BILLED
1975 to 1985

	YEAR	MESSAGES X 1,000	PERCENT INCREASE
Actual:	1975	3,999	
	1976	4,377	9.5
	1977	4,832	10.4
	1978	5,266	9.0
	1979	5,816	10.4
	1980	6,322	8.7
	1981	6,753	6.8
	1982	6,756	—
Estimate:	1983	6,859	1.6
	1984	7,014	2.3
	1985	7,294	4.0

During the financial hearing, Mr. M. Cooper, witness for the Applicant, admitted that the 1983 growth in messages to date was marginally greater at 1.6 percent than the original estimate of 1.5 percent, but claimed that this would have no effect on the forecast of 1984 messages.

The Commission believes that the Applicant is overly pessimistic for 1983 and 1984. In Exhibit 1, Section 2, Appendix 4, the Applicant projected a growth in gross tolls of 7.8 percent in 1983. The Applicant's Exhibit No. 12 shows that there was a 9.1 percent increase in gross toll in the first 10 months of 1983 over the same period in 1982. It appears that the Applicant has underestimated the additional revenues to be generated by the toll rate increase. Table 2 following compares the rate increases which took place in 1983 to the Applicant's estimate of how those rate increases will effect revenues.

TABLE 2

NORTHERN TELEPHONE LIMITED
COMPARISON OF TOLL RATE INCREASE TO APPLICANT'S ESTIMATE

Long Distance Service	Date Effective	Approximate Rate Increase	NTL Estimate of Impact on Revenues
Ontario-Quebec	September 1, 1983	5%	3.9%
Trans-Canada	October 1, 1983	5%	3.9%
Canada-USA	October 18, 1983	5%	3.9%

During the November 4, 1982 financial hearing the Applicant was questioned extensively on the matter of adjusting the toll rate increase downward to reflect the Applicant's expectation that revenues would not increase by the same magnitude.

The percentage increase in rates will not be equal to the percentage increase in revenues because of a phenomenon the Applicant refers to as 'melt' During the November 4, 1982 financial hearing, the Applicant was able to explain the reasons for the 'melt' but was unable to explain or support the magnitude of the 'melt'. In the current application, the Applicant did not provide any additional information. Although the concept may be sound, the Commission cannot accept the Applicant's estimate without support. In the Commission's view, the Applicant should reasonably expect an increase in revenues of more than 3.9 percent given a rate increase of 5 percent. In recognition of the Applicant's assumption that an increase in toll rates will have a negative effect on toll messages, the Commission has recalculated the Applicant's reply to interrogatory OTSC040CT83-110, Sheets 2 and 3, allowing for a 4.5 percent increase in revenues brought about by the September 1, 1983, increase in Ontario-Quebec toll rates; the October 1, 1983, increase in Trans-Canada toll rates; and the October 18, 1983, increase in Canada-USA toll rates.

The Commission's summary of revisions to the Applicant's estimate of 1983 and 1984 long distance service revenue as provided in Table 3.

TABLE 3
$000

NORTHERN TELEPHONE LIMITED
COMMISSION ADJUSTMENT TO APPLICANT'S
1983 AND 1984 LONG DISTANCE SERVICE REVENUE

	1982	1983		1984	
	Exhibit 1 Section 2 Appen'x 4	Exhibit 1 Section 2 Appen'x 4	Commission	Exhibit 1 Section 2 Appen'x 4	Commission
Gross Tolls	16,108	17,368	17,545	18,386	18,645
Less: ONTC Settlement	8,923	9,268	9,362	10,204	10,348
Less: Company Tolls	345	331	331	344	344
Net Message Tolls	6,840	7,769	7,852	7,838	7,953
Plus: Other Toll Revenue	967	1,144	1,201	1,151	1,236
% Supplement for 1984				437[1]	447
Long Distance Service Revenue	7,807	8,913	9,053	9,426	9,636
Net Commission Adjustment			140		210
Adjustment to Company Toll Expense					(14)

1. Reply to interrogatory OTSC30SEP83-112.

5.0 EXPENSES

5.1 Business Information System

The issue in this rate application is identical to that faced by the Commission in the NTL JUL 82 rate application. In Order No. 4198, dated January 18, 1983, the situation was described as follows:

> In section 4 (NTL JUL 82, Exhibit 1) of this application, the Applicant describes the Business Information System (BIS) department as providing "a wide range of data processing services for the Telephone Operations such as customer records and billing, general ledger, accounts payable, payroll and construction system. The department also provides data processing services to outside clients such as toll and customer billing systems for other telephone companies, municipal tax billing and data services for the provincial government". It is this dual use of the BIS department which has raised issued in this rate application. In section 4 of the rate application, the Applicant had proposed to allocate 56.3 percent of the BIS department costs to the telephone operations, while the remaining 43.7 percent is allocated to outside clients for 1983. The comparable allocation in 1982 was 41.6 percent to the telephone operations, and 58.4 percent to outside clients. In fact the telephone operations has consistently been allocated 41 to 43 percent of the total BIS department costs since 1979. The increase to 56.3 percent in 1983 is the major reason for the $159,000 increase in BIS costs to the telephone operations.

For the 1984 test year, the Applicant has proposed to allocate 60 percent of the BIS Department costs to the telephone operations and this would result in total BIS costs allocated to the telephone operations of approximately $885,280. This compares to an allocation of approximately $761,254 proposed by the Applicant for 1983, and approximately $562,463, allocated by the Commission to the 1983 telephone operations for the purpose of determining an additional revenue requirement.

Table 4 below demonstrates the cost allocation proposed by the Applicant in NTL JUL 82 for the 1983 test year, the cost allocation used by the Commission for the 1983 test year, and the cost allocation proposed by the Applicant for the 1984 test year.

TABLE 4

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
ALLOCATION OF BIS COSTS

	1983		1984
TOTAL BIS Department Costs excluding overhead costs	$1,145,100	$1,145,100	$158,200
Telephone Operations Percentage	56.3%	41.6%	60.0%
Costs Allocated to Telephone Operations	$644,600	$476,268	$694,900
TOTAL BIS Overhead Costs	$207,200	$207,200	$317,300
Telephone Operations Percentage	56.3%	41.6%	60.0%
BIS Overhead Costs Allocated to Telephone Operations	$116,654	$86,195	$190,380
TOTAL BIS Costs Allocated to Telephone Operations	$761,254	$562,463	$885,280

If the Applicant's method of allocating BIS costs to the telephone operations was employed, this would result in total allocated costs of $885,280, which is approximately 16 percent greater than the Applicant had proposed to allocate for the 1983 test year, and approximately 57 percent greater than the costs the Commission allowed for the 1983 test year. Both the methodology used to allocate BIS costs to the telephone operations and the increase in total costs in 1984 was the subject of numerous written interrogatories and questions during the financial hearing.

5.1 **Business Information System (Cont'd)**

The concerns of the Commission are, as expressed in Order No. 4198:

- There is little or no incentive to acquire new outside clients for data processing services.
- The telephone customers are subject to 100 percent of the risks associated with this unregulated aspect of Northern Telephone Limited.
- Usage can be measured a number of different ways and therefore the Applicant's current methodology is arbitrary.
- Unused BIS Department capacity can be used for the telephone operations even though additional jobs may not be cost effective and will result in increasingly larger proportions allocated to the telephone operations.

After reviewing the same issues in the context of the present rate application, the Commission is still not pursuaded that cost allocation based strictly on usage will result in fair treatment to the Applicant's customers unless the above related issues are also considered. In Exhibit 1, Section 3, of the application, the Applicant replied to the list of four issues and elaborated on the replies during the financial hearing.

5.1.1. There is little or no incentive to acquire new outside clients for data processing services.

With regard to this first concern noted above, the Applicant contends that because the Commission generally approves a range for the allowed return that there is an incentive on the part of the Applicant to seek operating cost efficiencies and new revenue sources which will permit it to achieve the upper limit of the range, and "This incentive applies equally to the incentive to seek out new Data Service clients". (Exhibit 1, Section 3, Page 7). It is the Commission's hope that this is true in practice. However, the Commission recognizes that because telephone rates are approved to recover all expenses and earn a return on the investment, that there may be a tendency to allocate additional expenses to the telephone operations with the expectation that telephone rates will be approved to recover the costs which cannot be recouped from Data Service revenues.

During the financial hearing, Mr. Cooper spoke about this lack of incentive to acquire new customers:

> I think we will continue to do what we have been doing and that is to provide good service, but we don't see that it will pay or be viable for us to go out and actively, aggressively try to market the service. We don't believe that money can be made or that we can justify the cost of doing that kind of thing.

5.1.2 The Telephone customers are subject to 100 percent of the risks associated with this unregulated aspect of Northern Telephone Limited.

Regarding the risk to the telephone customers, the Applicant stated, in Exhibit 1, Section 3, Page 8, that, "The Company maintains that there is no risk to the subscriber associated with the method of cost allocation used for Data Service". The Commission does not agree. The ultimate risk is if NTL loses all of the outside data service clients and the telephone customers are then assigned 100% of the costs of the BIS Department. The Applicant readily admits to this risk or requirement:

> The Company has been consistent in its use of this method, even though it has resulted in unreasonably low BIS expense being charged to the Telephone Operations. As a result of the increased allocation of BIS costs to the Telephone Operations, the subscribers are now paying a larger share of costs which they would be required to absorb entirely if the Company had no data service business. (Exhibit 1, Section 3, Page 9).

It is not likely that costs of the total operations of the BIS Department would be reduced by any significant amount as a result of the loss of outside clients. The Commission has observed that, although Telebec accounted for approximately one half of BIS revenue, total BIS costs excluding allocated overhead costs, were reduced by only 123,400 from $1,168,500 (NTL JUL 82, Exhibit 1, Section 4, Appendix 2, Sheets 1 and 2) after Telebec was lost as a data processing customer. Although the Applicant does not consider the potential loss of BIS customers as a risk, the Applicant did readily admit that any costs no longer recovered from outside clients would be borne by the telephone customers.

5.1.3 Usage can be measured a number of different ways and therefore the Applicant's current methodology is arbitrary.

The third concern expressed by the Commission was that relative usage of the BIS Department is the basis on which costs, between telephone operations and outside clients, are allocated. In Section 3 of the rate application, the Applicant provided a good deal more of the supporting data used to develop the allocation ratios. This information was very helpful to the Commission in evaluating the allocation ratios. In Exhibit 1, Section 3, the Applicant also referred to a statement made by the Commission in Order

No. 4198, where it was stated that "...although the Commission has accepted the methodology used by the Applicant to allocate BIS Department costs between the telephone operations and outside clients, the Commission has not examined or approved of the Applicant's usage study."

More specifically the Commission has employed the Applicant's methodology in Order Nos. 4151, 3949, 3563, but was rejected in Order No. 4198. In fact, the Commission stated in the context of the last NTL rate application that it was "...reviewing the methodology used by the Applicant to allocate BIS costs between the telephone operations and outside clients." The Commission concluded by stating that it "...will expect that the Applicant will investigate this problem in more detail and provide the Commission with viable alternatives which will not burden its telephone customers." In the current application, Exhibit 1, Section 3, Page 9, the Applicant replied to the Commission's directive: "This method was previously accepted by the Commission, and the Company feels that it is reasonable for the telephone subscriber to absorb the increased costs allocated to Telephone Operations," and "The Company maintains that for BIS expense, the cost allocation method based on usage is fair and reasonable to the telephone subscriber."

The Commission does not dispute that the customers should be responsible for paying the costs caused by the usage, but the Commission is seriously concerned when BIS costs excluding overhead costs, allocated to telephone customers increased from $486,000 (NTL JUL 82, Section 4) in 1982, to $640,300 (NTL JUL 83, Section 3) in 1983. If usage was measured in relation to total capacity, this problem would not be as significant, but the Applicant measures telephone operations usage in relation to total use, and total use has fallen off dramatically because of the loss of Telebec as an outside client.

5.1.4 Unused BIS Department capacity can be used for the telephone operations even though additional jobs may not be cost effective and will result in increasingly larger proportions allocated to the telephone operations.

The final concern expressed by the Commission in Order No. 4198 is the perceived tendency on the part of the telephone system to substitute new telephone jobs for the unused capacity in the BIS Department created as a result of the loss of Telebec. This has the effect of allocating a greater proportion of total BIS costs to the telephone operations. In (Exhibit 1, Section 3, Page 9) the Applicant responded that "The management of the Company thoroughly reviews each new application to assure itself that each job is justified before being approved for completion and implementation". It is not the Commission's desire to review each new data processing job. Nevertheless, the Commission must be cognizant of the fact that telephone customers will be required to pay for new projects, both those which are worthwhile, and those which are not essential.

In reply to interrogatory OTSC26JUL83-510, the Applicant identified *nine new projects* for the BIS Department, which have been or may be undertaken during 1983 and 1984. These projects included cash machine enhancements; employee benefit statement; mechanization of business records; pension sub-system; third number billing from pay phones; cash conversion; enhancements for the customer services budget and results group; future product/service information and miscellaneous studies. As noted, the Commission does not have the ability to monitor and evaluate each new BIS project, and yet the current method of allocating BIS costs to the telephone operations will put an additional responsibility on the Commission to question the Applicant regarding the costs associated with any new BIS project.

As a result of the additional costs imposed on the Applicant's customers resulting from the current method of allocating BIS costs, and because the Applicant has insisted on using the methodology, even on the request of the Commission to consider alternate methodologies, it is now contingent upon the Commission to develop a methodology of allocating BIS costs to the telephone operations which will be fair and reasonable.

The Commission has considered three of many alternatives: continue to use the procedure or some modification of the procedure employed in Order No. 419; allocate costs based on the telephone operation usage relative to total BIS capacity; and thirdly, treat the BIS Department as a function divorced from telephone operations, exclude all capital costs from the rate base, expenses from the income statement and charge telephone customers for the use of the BIS Department at the same rate outside clients would be charged.

The Commission has decided upon the first alternative, that is, to allocate anticipated 1984 BIS Department costs to the telephone operations using allocation factors which were originally developed as a result of a usage study completed for 1982. This approach does not resolve all of the problems but until enough information is available to evaluate other alternatives, the Commission believes this to be the most reasonable.

However, the Commission has been convinced by some of the information filed by the Applicant that strict application of the procedure used in Order No. 4198, for the 1984 test year, may not accurately reflect all the costs which should be allocated to the telephone operations. In the Commission's view, strict application of the Applicant's methodology will only serve to allocate costs to the telephone operations which are not appropriate. The success of developing a reasonable alternative is contingent upon the Applicant's cooperation, which has not been forthcoming to-date. During the financial hearing, the Applicant filed Exhibit 7, which stated in part that:

> The Company wishes to advise the Commission at this time that the acceptance of this method (used in Order No. 4198) will result in a reassessment of the objectives of the entire BIS efforts and the likely discontinuation of the Data Services business. Elimination of these revenues would most certainly lead to higher subscriber rates due to the loss of the contribution to overhead costs that this business makes.

The Applicant could not specify for the Commission how much bigger the subscribers rates would be as a result of a loss of the revenue contribution by outside BIS clients.

Furthermore, the Applicant did not offer the Commission any evidence that the entire existing BIS facilities are required for the telephone operations.

However, given the fact that the BIS Department and all of the equipment does exist, and that it would likely be inefficient not to use the equipment to the extent possible, the Commission recognizes that the loss of more BIS clients would require the Applicant to maintain a BIS Department too large and inefficient for the telephone operations alone.

In order to ensure that telephone rates are not increased unnecessarily by the Applicant's cost allocation approach, the Commission has decided to allow a portion of the difference calculated in Table 5 to be included in the additional revenue requirement calculation for the 1984 test year. To include the full impact of the Applicant's approach would require an average rate increase approximately 3.5 greater than would have resulted under the method employed in Order No. 4198, and this is unacceptable to the Commission.

In future rate applications the Commission will consider including the full BIS costs allocated by the Applicant to the telephone operations in the additional revenue requirement calculation. The decision will be based on, but not limited to, the following factors: the increase in the total costs of the BIS Department; proposed changes to the allocation factors; evidence of the Applicant's attempts to acquire additional outside work for the BIS Department; and a full explanation and justification of new BIS work for the telephone operations. In regards to new BIS work for the telephone operations, the Applicant should be prepared to provide a full and detailed explanation of any new or proposed BIS work, provide the number of man hours per year required for the job, show

any additional costs required to do the work, and show management's evaluation of the new projects and reasons to proceed.

TABLE 5

NORTHERN TELEPHONE LIMITED
BUSINESS INFORMATION SYSTEM DEPARTMENT
COMMISSION ADJUSTMENT TO
1984 BIS COSTS ALLOCATED TO THE TELEPHONE OPERATIONS

	APPLICANT		COMMISSION	
TOTAL BIS Department Costs excluding Overhead Costs	$1,158,200		$1,158,200	
Telephone Operations Percentage	60.0%		41.6%	
BIS Department Costs Allocated to Telephone Operations		$694,900		$481,811
Data Service Function Credit: Total BIS Dept. Overhead Costs	$317,300		$317,300	
Outside Client's Percentage	40.0%		58.4%	
Data Service Function Credit		$126,920		$185,303
Difference in:				
BIS Department Costs allocated to Telephone Operations				$213,089
Data Service Function Credit				$ 58,383
Total				$271,472
Adjustment included in additional revenue requirement calculation				$135,000

NOTE: Due to the rounding of the Telephone Operations and by the Outside Clients' Percentage, the products in the Table may appear to be incorrect.

The format of this Table is not directly comparable to the format of Table 6, Order No. 4198.

5.2 Depreciation Expense

When the Applicant filed the rate application in July 1983, the composite depreciation rate estimated for 1984 was 5.89 percent, which resulted in a depreciation expense of $4,150,000. On August 30, 1983, the Applicant filed 1984 provisional depreciation rates for approval by the Commission. These rates yield a composite depreciation rate of 5.74 percent, and 1984 depreciation expense of $4,044,000. The new depreciation rates and expense estimated for 1984 has been reviewed in the context of a separate application and received Commission approval in Order No. 4273 dated November 25, 1983. Therefore, for the purpose of calculating an additional revenue requirement, the Commission has accepted the revised depreciation expense of $4,044,000.

5.3 Sales Division Expense

The Commission issued Interim Order No. 4188 on November 18, 1982, and recently final Order No. 4276 which permitted the telephone systems under its jurisdiction to sell telephone equipment under certain conditions. Northern Telephone Limited is one of the telephone systems which has taken advantage of this new opportunity. In response to interrogatory OTSC26JUL83-906, the Applicant filed, in confidence, a forecasted income statement for the sales division for the years 1983 to 1985 inclusive. No intervenor questioned the confidentiality of the reply. The income statement is the absolute minimum information required and in many cases it will not be sufficient. In Interim Order No. 4188, the Commission specifically ordered the telephone systems to maintain adequate accounting records which would permit the Commission to determine whether or not unwarranted cross-subsidies were arising. That section of the Interim Order is repeated below for emphasis:

> THE COMMISSION ORDERS that any telephone system selling terminal equipment maintain accounting records for documentation for the sale and costing of such equipment which will allow the Commission to determine the impact on the telephone customers from such sales.

The necessity of keeping proper accounting records for the sale of telephone equipment is also emphasized in Order No. 4276 section 1.7.1 as follows:

> THE COMMISSION FURTHER ORDERS that any telephone system which sells terminal equipment pursuant to section 1.7 of this Order, shall do so either through a separate arms-length subsidiary corporation or shall segregate such activities in its books of account to clearly identify the sales function in a manner that allows the Commission to verify that sales of equipment recover the costs incurred, all costs being considered.

In Section 3, Appendix 5, the Applicant allocated a portion of certain expenses which are common to all divisions of Northern Telephone Limited to the Sales Division. The allocations were based on a number of reasons, none of which were supported by the Applicant, and none of which can be verified by the Commission. Of particular concern to the Commission was the allocation of Business Services expense and Marketing expense. Out of Business Services expense of $380,000, the Applicant allocated only 1.5 percent to the Sales Division, and of the $277,000 Marketing expense, only 1.87 percent was allocated to the Sales Division in 1983. This does not appear to be consistent with other information provided by the Applicant.

The Applicant's reply to interrogatory OTSCO2AUG83-206, Sheet 9, shows that coincident with the introduction of terminal interconnection in 1983, the Applicant acquired two additional Marketing and Development employees at a cost of $70,000. Section 6, Appendix 2, Sheet 2, also shows that, post interconnection, 1983 Marketing and Development expense is expected to reach $346,000, a 36.2 percent increase over the, pre-interconnection, 1982 expense of $254,000. Marketing and Development expense is forecasted to increase by another 8.3 percent in 1984 as one part time employee becomes full time.

The Commission is not convinced that the increase in expenses and employees is related solely to factors other than the introduction of sales activity.

Some of the increase in Marketing and Development expense, and the Business Services expense, would undoubtedly occur had the Applicant decided not to sell terminal equipment. It could be expected, for instance, that greater activity in leases would have caused an increase in Marketing and Development expense, particularly with the introduction of the two tier or rate stability type contracts.

However, it was Mr. Cooper's contention throughout the financial hearing that none of the $86,000 growth in 1983 and $9,000 growth in 1984 predicted for the Marketing and Development Department is directly the result of the introduction of sales activity. The Applicant also predicted that there would be a growth in the Business Services Department of $23,000 in 1983. The Commission is of the view that a minimum of 50 percent of these additional costs are directly the result of the introduction of the Applicant's sales activity. Table 6 below provides the additional costs relating to sales activity.

TABLE 6

NORTHERN TELEPHONE LIMITED
COMMISSION CALCULATION OF COSTS DIRECTLY
RELATED TO SALES ACTIVITY - 1984

	OTSCO2AUG83-206 SHEET 9 - 1983	ITSCO2AUG83-207 SHEET 3 - 1984	TOTAL
Marketing and Development	$86,000	9,000	$95,000
Business Services	$23,000	(2,000)	21,000
Total	$109,000	$7,000	116,000
Related to sales activity 50%			$58,000

Of course, there are costs other than the Marketing and Development expenses, and the Business Services expenses, associated with the selling of equipment. In Exhibit 1, Section 3, Appendix 5,, the Applicant attempted to allocate certain costs common to the sales division as well as the other divisions within Northern Telephone Limited. Excluding the Marketing and Development expense and the Business Services expenses examined above, the Applicant calculated a total of $262,300 in costs which should be allocated. (Exhibit 1, Section 3, Appendix 5, Sheet 3). For the purposes of this rate application, the Commission will employ the $262,300 allocation base.

In the rate application, the Applicant applied an allocation factor to the allocation base to determine the sales division credit. The allocation factor was based on the Applicant's estimate of the ratio of the Business Services and Marketing staff time spent on sales division activity to the total Business Services and Marketing staff time available. The Applicant filed sample time sheets completed by the employees which allowed the Applicant to calculate a weighted allocation factor of 2.19 percent for 1984.

It became apparent during the financial hearing, however, that an employee's time spent with a customer would require explanations of lease or rental versus purchasing options. Mr. Cooper indicated that once a customer has decided in favour of a purchase, the Applicant ensures that the cost is then associated with the sales division. The Commission is concerned that this would not reflect the additional staff time necessary to explain the relative advantages and disadvantages of purchasing the equipment outright to a customer who ultimately decides not to purchase but to lease or rent. In fact, the Commission observes that the Applicant estimates that in 1983 only 1.5 percent of the Business Services staff time, and only 1.87 percent of the Marketing staff time, was spent on sales activity.

For the reasons explained above, it is the Commission's view that 50 percent of the growth in Marketing and Development expenses and Business Services expenses more closely reflect the costs resulting from the introduction of the sales division. It is also reasonable to assume that one out of the two additional employees working in these divisions reflect the need for additional staff to deal with sales activity. Therefore, for the purpose of calculating an allocation factor, the Commission will use the ratio of the additional employee required for the sales division, to the existing employees of the Business Services and Marketing divisions. In the absence of more complete and detailed information, the Commission believes that the factor calculated in Table 7 is in fair approximation of staff time available on Sales Division activity to total staff time available.

TABLE 7

NORTHERN TELEPHONE LIMITED
COMMISSION CALCULATION OF SALES DIVISION ALLOCATION FACTOR

Additional Employee	1
Existing Employees (OTSC30SEP83-223)	16
Allocation Factor	.0625

TABLE 8

NORTHERN TELEPHONE LIMITED
CALCULATION OF 1984 SALES DIVISION CREDIT
AND COMMISSION ADJUSTMENT

Allocation Base	262,300	
Allocation Factor	.0625	
Costs Allocated	16,394	
Direct Costs	58,000	
Sales Division Credit	74,394	
Applicant's Sales Division Credit (Exhibit 1, Section 3, Appendix 5, Sheet 1)	41,200	
Commission Adjustment	33,194	

The Commission views the above methodology as an interim measure until the Applicant can provide sufficient support of the Sales Division allocation factor.

6.0 INCOME TAXES

For the purpose of determining an additional revenue requirement, the Commission has used the Applicant's tax rate of 51.0 percent which includes the recent increase in the Provincial tax rate.

7.0 RATE BASE

In Order No. 4198, the Commission made the following observation regarding the valuation of the rate base which excludes the effect of the proposed rates:

> The Applicant, by this time, must be aware of the approach determined by the Commission. In Order No. 4151, dated June 9, 1982, it is clear that the rate base is measured without rate relief and the additional revenue requirement approved in the Order was determined on that basis. In Order No. 3949, dated June 27, 1980, the Commission employed a 1981 test year with a rate base measured without rate relief.
>
> In this rate application, the Commission is not persuaded by the Applicant and continues to measure the rate base without rate relief.
>
> ...if the Applicant has substantive reasons for employing a rate base calculated with rates, the Commission is open an willing to hear such reasons in the context of any future rate application.

In this rate application the Applicant has again used a rate base calculation based on the assumption that the full rate increase would be approved. Furthermore, despite the Commission's invitation, no explanation was received during the processing of this application from the Applicant as to why the rate base should be measured with the full rate request included. The Applicant's insistence on using a rate base with rates has only resulted in additional work. A number of interrogatories were issued requiring the Applicant to refile sections of the rate application so that the additional revenue requirement could be calculated without rates. Although the Commission will not require the Applicant to change its method in rate applications, continued inclusion of the additional revenue requirement in the rate base will continue to require additional interrogatories and work on the part of the Applicant.

For the purpose of determining an additional revenue requirement in this application, the Commission will use the rate base measured without rates.

TABLE 9
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
AVERAGE 1984 NET ASSET RATE BASE

EXHIBIT 4
APPENDIX 2

1.	Total Telephone Property	72,116
2.	Less: Accumulated Depreciation	24,521
3.	Net Telephone Property	47,595
4.	Materials and Supplies	552
5.	Working Capital	(1,435)
6.	Sub Total	46,712
7.	Less Deferred Taxes	8,773
8.	Average Total Capital	37,939

8.0 ACCOUNTING REFINEMENTS

The accounting refinements were first introduced by the Applicant in the NTL JAN 80 rate application. At that time NTL proposed that the expensing or capitalizing of overhead costs be determined based on the following criteria: "All overhead costs which vary with the level of construction shall be capitalized. All other overhead costs shall be expensed in the year of incurrence..." (NTL JAN 80 Section 4, Appendix 3, Page 1.) The Applicant also explained the application of this criteria to the following three categories of cost.

1. Direct Costs - Direct costs vary directly with the level of construction activity and therefore should be capitalized.

2. Indirect Costs - Indirect costs vary with the level of direct costs, and therefore are also related, but less precisely, to the level of construction activity, and therefore, should be capitalized.

3. Common Overhead Costs - These costs do not vary with the level of the construction program and should be expensed in total.

The Applicant also pointed out that this procedure was, in their view, "...in agreement with the accounting principle which advocates the matching of current costs to current revenues." (NTL JAN 80, Section 4, Appendix 3, Page 1).

In Exhibit 13, Page 2, filed in conjunction with the NTL JAN 80 rate application, the Applicant came to the following conclusion:

> *...the Company has determined that those costs that have a quantifiable enduring benefit are to be capitalized.* Conversely, those costs that do not meet this criterion are expensed. By this delineation, the Company has applied the most current understanding of accounting principles concerned with the matching of current costs and revenues.

> In order to ensure that it was meeting generally accepted accounting principles, the Company requested that its external auditors review its plan. Ross, Pope & Company advanced the opinion that the refinements to be implemented by the Company met generally accepted accounting principles and should be initiated as a one-time, full implementation exercise. The Company has decided that although a more pure accounting treatment would be to introduce all refinements as a one-stage exercise, a phased implementation has been introduced to minimize the impact on subscribers. (Emphasis added)

The Applicant also quoted from the OTSC's Discussion Paper, "A Framework for a Uniform System of Accounts" in support of the accounting concept of 'matching' in order to support the proposed accounting refinements. During the processing of the NTL JAN 80 rate application, the Commission requested a great deal of additional information and spent a significant amount of time during the financial hearing examining the proposed accounting refinements. The Commission's findings in Order No. 3949, dated June 27, 1980, led to a rejection of the proposed accounting refinements.

> The Commission is of the opinion that the acceptance of such reasoning for change is not consistent with the basic accounting principle of matching costs and revenues. The fact that the Applicant admits that there is some enduring or future benefit related to certain costs requires some apportionment to capital. Therefore, until the Applicant can demonstrate that in the application of new accounting procedures, all the costs that relate to future benefits are properly recognized and that the proposed accounting procedures are more appropriate than the former procedures, the Commission requires the Applicant to continue to use the former method for the allocation of common overheads.

Nevertheless, the Commission recognized that the Applicant may wish to provide new support and additional information regarding the proposed accounting refinements.

It was not until the NTL JUL 82 rate application that the Applicant again proposed to implement the accounting refinements which would have resulted in an expensing of a greater portion of the common overhead costs. In the application (Section 5, Page 3), the Applicant rejected the enduring benefit criteria which it had first introduced in the initial proposal:

> The Company has attempted to relate the enduring benefit criteria to the USOA provisions dealing with the accounting treatment of costs and fids inconsistencies in applying the future benefit criteria alone.
>
> The enduring or future benefit criteria alone is not, in the Company's view, sufficient justification to require an apportionment of overhead costs to capital.

The criteria of capitalizing "costs that have a quantifiable enduring benefit" (NTL JAN 80 Exhibit 13, Page 2), as advocated by the Applicant was replaced with the guideline that "All overhead costs which vary with the level of construction activity shall be capitalized...." and that "Those costs which relate to the general operation and administration of the business and which do not vary with the direct costs shall be expensed in the year of incurrence". (NTL 82, Section 5, Page 1). Thus, the Applicant rejected the very accounting criteria of 'enduring future benefit' which it had used to support the proposed guideline of "...varying with the level of construction activity". This change in position was possible because the Commission had introduced these guidelines as notes into the Uniform System of Accounts (USOA) on the request of the Ontario Telephone Association.

Section 2.22, Note K(a) of the USOA states:

> All overhead costs which vary with the level of construction activity shall be capitalized. These include overhead construction costs such as engineering, supervision, applicable

> administrative office expenses, relief and pensions, taxes, interest, and any other costs which vary indirectly with the level of construction. These costs shall be charged to particular jobs or items at the time the item of plant is retired;

and in Section 2.22, Note K(d):

> Those costs which relate to the general operation and administration of the business and which do not vary with the direct costs, shall be expenses in the year of incurrence;

However, these are notes to a more general instruction that:

> The cost of the construction of property chargeable to the telephone plant accounts shall include the cost of labour, material and supplies, transportation, contract work, protection, injuries and damages, privileges and permits, taxes, rent, insurance, and other costs in connection with such work, and which are readily attributable to such work. (USOA 2.22).

In the Commission's view some of those costs, which the Applicant had proposed to expense, were readily attributable to the construction of property. Based on the principle of charging costs which are readily attributable to the construction of telephone property, the Commission included Notes K(a) and K(d) which have been quoted above. These Notes act as an aid to allocate overhead costs, but do not replace or over-ride the direction provided in section 2.22 of the USOA.

In Order No. 4198, the Commission denied the use of the accounting refinements proposed by the Applicant. The circumstances surrounding the Commission's decision included poor economic conditions in the Applicant's serving territory, the timing of the introduction of the USOA, and the method proposed by the Applicant to introduce the accounting refinements. In addition to all of this, the Commission still had concerns over NTL's application of the guidelines from the USOA. The Commission concluded that "For the purpose of this rate application, the Commission concludes that the Applicant's proposed accounting refinements are entirely inappropriate at this time."

When the current rate application (NTL JAN 83) was filed, the Commission was somewhat surprised to learn that the Applicant had abandoned all of its proposed accounting refinements. The 1984 test year used by the Applicant in the rate application is also the year the USOA will be implemented by the majority of the telephone systems under the Commission's jurisdiction. The use of the 1984 test year in the context of the current rate application would have been the ideal time for the Applicant to implement many of the accounting refinements which are in conformity to the USOA and also the best opportunity for the Commission to evaluate those aspects of the accounting refinements which may not be suitable under the USOA. The Commission can only conclude that the Applicant decided not to file a rate application which follows the direction contained in the USOA until a 1985 or later test year is employed in a rate application, and filed with the Commission in 1984 or later. In any case, the Commission will expect full adherence to the USOA once it has been formally introduced on January 1, 1984.

9.0 RATE OF RETURN

By way of introduction to the current rate application, the Applicant made the following assertion:

> The Applicant's approved range for rate of return on average common equity is 15.5% to 16.5%. However, in light of current economic and social pressures to comply with the spirit of general restraint guidelines as enunciated by the Federal and Provincial Governments, the Applicant has voluntarily reduced its requested rate of return on average

common equity to 13.7%, which is considerably less than the mid-point of the approved range. This meets the Applicant's objective of keeping subscriber rate increases to a minimum, while maintaining the minimum standard of financial integrity. The Applicant stresses that this voluntary reduction applies only to this application. (NTL JUL 83, Page 2).

On September 29, 1983, the Commission received major amendments to the rate application first filed in July 1983. Among the adjustments was an increase in the rate of return on average common equity to 14.0 percent. In support of this change the Applicant provided the following reasons:

> The Company is concerned that a 13.7% rate of return on average common equity in 1984 may not be sufficient to maintain the confidence of its investors. The Company had submitted 13.7% as the minimum acceptable rate of return on average common equity that would at least maintain the Company's financial integrity, and was based on maintaining the estimated 1983 rate of return on average common equity and limiting the average increase in Local Service Revenue to 9.5•. As a result of the continuation of the toll supplement and the Depreciation Expense reduction, the Company will be able to improve the rate of return on average common equity for 1984 from 13.7% to 14.0% and at the same time reduce the Local Service Revenue increase to less than 6.0%...
>
> The Company maintains that this small increase in the rate of return will provide some assurance that the financial integrity of the Company will be maintained, even though it is still well below the midpoint of the range of 15.5% to 16.5% currently approved by the Commission and recommended by the Company's expert witness. The Company submits that the modest increase to 14.0% is justified...

The issue in this rate application has become whether or not the Commission should approve an additional revenue requirement which would permit the Applicant to earn a 13.7 percent or a 14.0 percent rate of return on average common equity. The issue is not the appropriateness or the reasonableness of a range of 15.5 to 16.5 percent for average common equity. It is the Commission's view than an examination of the approved range for rate of return on average common equity of 15.5 to 16.5 percent is not a useful exercise for two reasons. The range approved in Order No. 4198 was based on the evidence presented in the context of the NTL JUL 82 rate application and for a 1983 test year. The Commission's findings on an appropriate rate of return on equity in the context of that application has no direct relevance to the calculation of an additional revenue requirement based upon a 1984 test year. Secondly, the time and effort required on the part of the Commission and the Applicant to evaluate a range of 15.5 to 16.5 percent for return on average common equity is not worthwhile given the fact that the Applicant has requested a return on average common equity of no more than 14.0 percent.

Without having determined an appropriate range for the rate of return on equity, the Commission has decided to employ the 14.0 percent as amended by the Applicant for the purpose of determining an additional revenue requirement for the 1984 test year. The Commission believes that a rate of return on equity of 14 percent is a reasonable return for the Applicant.

The other components which enter into the rate of return calculation are the cost of debt capital and the cost of preferred equity. The Commission has accepted the Applicant's embedded cost of debt of 10.4 percent (without rates), and the cost of preferred equity of 6.1 percent. Table 11 provides the calculation of the cost of total capital.

9.1 Capital Structure

The capital structure weights to be applied to each source of financing is an important element in determining the allowed rate of return. The Commission has concluded in previous Orders that the appropriate capital structure to use for the telephone operations is equal to the test year estimated average capital structure of the Applicant *without rate relief* (see Section 7.0 of this Order.) The capital structure of the Applicant's total operations taken from Exhibit 4, Appendix 3, is presented in column (a) of Table 10.

The dollar amounts of debt, preferred, and equity capital allocated to the telephone operations is presented in column (e) of Table 10. This is obtained by applying the Applicant's capital structure weight for each source of funds to the telephone operations rate base. This method ensures that the sum of the sources of financing for the telephone operations equals the measured rate base.

The existence of an investment division, a BIS division, and a sales division, and the use of a net asset rate base for rate making requires that the Commission employ the capital structure weights of Northern Telephone Limited as an approximation of the capital structure of the telephone operations. The Commission does not believe that sources of financing can be identified for the exclusive use of specific divisions. Therefore, until there is a suitable change in the structure of the Applicant's operations, the Commission will continue to employ the capital structure weights of the total operations of Northern Telephone Limited to calculate the overall cost of debt and preferred equity of the telephone operations.

The Commission's adjustments to the Applicant's projected 1984 net income are found in Table 12. Line 18 of Table 12 shows an increase to net income available to common shareholders of $191,000. This adjustment has the effect of increasing the Applicant's *total* average 1984 common equity by $95,500. The impact on the capital structure and the weighted cost of capital is shown in the following two tables.

TABLE 10

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
1984 AVERAGE CAPITAL STRUCTURE

	NTL Total Operations (a) ($000)	Commission Adjustments (b) ($000)	Revised Capital Structure (c) ($000)	(d) (%)	Telephone Operations (e) ($000)
1. Total Debt	26,160		26,160	42.1	15,972
2. Preferred Equity	8,984		8,984	14.4	5,463
3. Common Equity	26,970	96	27,066	43.5	16,504
4. Total	62,114		62,210	100.0	37,939

TABLE 11

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
1984 COST OF CAPITAL

	Capital Structure Weights (a) (%)	Cost Rate (b) (%)	Weighted Cost (c) (%)
1. Total Debt	42.1	10.4	4.38
2. Preferred Equity	14.4	6.1	.88
3. Common Equity	43.5	14.0	6.09
4. Total	100.0		11.35

10.0 REVENUE REQUIREMENT

The additional revenue requirement, for the purpose of this application, is based on a 1984 test year. The subject of test year and the Commission's findings with respect to this matter are presented in Section 3.0 of this Order.

Table 13 presents the calculation of the additional revenue requirement and Table 12 presents the estimated 1984 income statement reflecting the Applicant's submission and the Commission's adjustments.

Based on the findings in this Order and on the calculation of the additional revenue requirement in Table 13, the Commission concludes that the Applicant has an additional revenue requirement of $381,000 for the 1984 test year.

TABLE 12
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
1984 INCOME STATEMENT

		Exhibit 4 Appendix 1	Commission Adjustments	Commission Revised Income Statement
1.	Local Service	12,531		12,531
2.	Long Distance Service $9,426	210	9,636	
3.	Miscellaneous Operating	1,721		1,721
4.	TOTAL OPERATING REVENUES	23,678		23,888
5.	Depreciation	4,044		4,044
6.	Customer Services:			
	(a) Maintenance	4,193		4,193
	(b) Commercial	1,314		1,314
	(c) Staff Budget and Results	363		363
7.	Traffic	193		193
8.	Other	7,256		
	- Operating Rents		(14)	
	- BIS Division		(135)	
	- Sales Division		(33)	7,074
9.	TOTAL OPERATING EXPENSES	17,363		17,181
10.	NET OPERATING REVENUES	6,315		6,707
11.	Income Taxes	2,372		2,573
12.	OPERATING INCOME	3,943		4,134
13.	Other Income	(8)		(8)
14.	NET INCOME before Interest	3,935		4,126
15.	Interest Charges	1,662		1,662
16.	NET INCOME	2,273		2,464
17.	Preferred Dividends	333		333
18.	NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	1,940		2,131
19.	Rate of Return on Average Common Equity	11.8%		12.9%
20.	Rate of Return on Average Total Capital	10.4%		10.9%
21.	Average Common Equity	16,473		16,504
22.	Average Total Capital	37,939		37,939

TABLE 13
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
1984 TEST YEAR
ADDITIONAL REVENUE REQUIREMENT

1.	Rate Base	37,939
2.	Allowed Rate of Return	11.35%
3.	Revenue Requirement before Expenses	4,306
4.	Total Income Available	4,126
5.	Additional Revenue Requirement before Taxes and Uncollectibles	180
6.	Allowance for additional Taxes and Uncollectibles	201
7.	Total Additional Revenue Requirement	381
8.	Average Rate increase Required for Services Effected by the Application	3.6%

11.0 CONSTRUCTION PROGRAM

11.1 Historical Levels of Expenditure

As set out in Table 15, the historical level of construction expenditures for the period 1973 to 1980 has been an average of $3.0 million per year, expressed in 1971 dollars. This average includes extraordinary expenditures in 1976 and in 1977 for the construction of the Timmins Building Complex.

In the NTL OCT 81 application, the Applicant had planned significant increases in construction expenditures for the 1981 to 1984 period. The anticipated average construction expenditures for those years would have been $3.4 million per year, expressed in 1971 dollars. These increases in the estimated level were due to the installations of large switches in Timmins and in New Liskeard in 1982 and 1984, and included the effect of completing the rural upgrade program by 1985. It was the Commission's expectation that the level of expenditures would return to the historical construction expenditure level of approximately $3.0 million per year.

To avoid the burden on the subscribers which would have resulted from the extraordinary expenditures in 1982 and in 1984, the Commission, for rate purposes, normalized the expenditures for the 1982 to 1986 period in Order No. 4151.

In response, NTL modified its construction program for 1982 and revised its plans for future years. In the NTL JUL 82 rate application, the Applicant deferred the large digital installation in New Liskeard to 1985 and delayed the rural upgrade program completion date from 1985 to 1986. The average level of expenditure for the years 1981 to 1984 was therefore reduced to approximately $3.2 million (1971 dollars) which the Commission accepted for rate making purposes.

In the current rate application, the Applicant has made further changes in its long term construction program to reflect a lower rate of growth than originally anticipated. The New Liskeard installation has been deferred from 1985 to 1987 to reflect lower estimated growth and the Applicant now proposes to complete the rural upgrade program in 1987. However, the Applicant does not expect that this further delay in completion of the rural upgrade program will result in additional capital expenditures. The last stages to complete the work in 1987 will require a relatively small operating expense.

The revised plan for the 1981 to 1984 period show an average of $2.9 million per year (in 1971 dollars) and an average of $2.8 million per year (in 1971 dollars) for 1981 to 1986 period. These estimated levels are below the historical level of construction expenditures for the Applicant. This is due largely to the lower expenditures estimated for the years 1983, 1984 and 1985 and the deferral of expenditures brought about by lower expected growth and the continuing effects of the 1982 deferral of the completion of the rural upgrade program.

Given the revised estimates for 1983, 1984 and 1985 and the postponement of the large digital installations in New Liskeard to 1987, the Commission considers that the extraordinary cost of the 1982 digital installation in Timmins has been normalized.

The growth in main stations is one of the principal indicators of demand. Table 16 shows that the growth has declined from an average of 1084 main stations per year in the 1974-1980 period to 786 mains per year in the 1981-1985 estimates.

If growth does not resume, the Commission expects the level of expenditures in constant dollars to remain lower than the historical average. If growth does resume at historical levels, the level of expenditures should return to historical levels.

The Applicant now uses 1981 dollars instead of 1971 dollars to remove the effect of inflation for the purpose of comparing the annual construction program expenditures. A comparison of construction expenditures expressed in 1981 and 1971 dollars is provided in Table 14.

TABLE 14

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
AVERAGE CONSTRUCTION EXPENDITURES IN CONSTANT DOLLARS

	1981 Dollars (Million)	1971 Dollars (Million)
Historical levels	$6.6	$3.0
Average 1981-1984	6.4	2.9
Average 1981-1986	6.2	2.8

TABLE 15
($000)

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
CONSTRUCTION EXPENDITURES

	Year	Current Dollars	1971 Dollars	1981 Dollars
	1973	2,813	2,487	
	1974	4,071	3,252	
	1975	3,922	2,869	
	1976	5,353	3,607	
	1977	5,155	3,337	
	1978	4,232	2,543	
	1979	5,829	3,219	
	1980	5,900	2,986	
	Average		3,037	
NTL OCT 81 Rate Application	1981	7,015	3,211	
	1982*	8.768	3,617	
	1983*	7,927	2,987	
	1984*	10,369	3,588	
	Average		3,351	
NTL JUL 82 Rate Application	1981	7,204	3,297	
	1982*	8,061	3,325	
	1983*	8,369	3,153	
	1984*	8.602	2,968	
	Average		3,186	
NTL JUL 83 Rate Application	1981	7,204	3,296	7,204
	1982	7,983	3,294	7,198
	1983*	6,778	2,582	5,644
	1984*	6,912	2,452	5,358
	1985*	7,127	2,361	5,161
	1986*	9,703	3,004	6,565
	Average 1981-84		2,906	6,351
	Average 1981-86		2,832	6,188

*Estimates

References: NTL FEB 77 - Exhibit 3 Appendix 9
NTL JAN 80 - Exhibit 1 Section 5
NTL OCT 81 - Exhibit 2 Section 5
NTL JUL 82 - Exhibit 1 Section 6
OTSC14DEC82-314
OTSC19NOV81-331
OTSC26JUL83-303
OTSC23JUL83-304

TABLE 16

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
TOTAL MAIN STATIONS

Year	Total Mains	Total Main Gain	% Increase
1974	39,965	1,200	
1975	41,242	1,277	3.2
1976	42,286	1,044	2.5
1977	43,280	994	2.4
1978	44,312	1,032	2.4
1979	45,232	920	2.1
1980	46,355	1,123	2.5
1981	47,437	1,082	2.3
1982	48,078	641	1.4
1983	48,800	722	1.5*
1984	49,536	736	1.5*
1985	50,286	750	1.5*

Average 1974 - 1980 - 1084 main station growth
1981 - 1985 - 786 main station growth

11.2 Rural Upgrade Program

11.2.1 Status of the Program

In 1977 the Applicant presented a formal rural upgrade program (OTSC18APR77 -701) which was based on the following objectives:

1. All multi-party subscribers to be converted to four-party service over the remaining 9 years (1977-1985).

2. Most of the demand for two-party and individual party business and residential service outside the Base Rate Area, also to be met in this period.

The Applicant's program provided for the upgrade of 36,600 subscribers over nine years at a cost of $4.6 million. The estimates were based on current dollars with no allowance for future inflation. It did not include growth factors since population trends could not be identified. The estimated number of upgrades was to be monitored annually by the Applicant to allow for changes due to demand or customer movement.

*Estimates

References: NTL NOV 77 Section 1 Appendix 3
NTL JAN 80 Section 1 Appendix 2
NTL OCT 81 Section 1 Appendix 2
NTL JUL 82 Section 1 Appendix 2
NTL JUL 83 Section 1 Appendix 2

Many changes in estimates have been made over the years and the Applicant now estimates that an estimated 3,800 subscribers will be upgraded over an 11 year period (1977-1987) at a total cost of $11.5 million. The actual number ugraded by year end of 1982 was 2,116, which represents 56% of the 3,800 candidates for upgrade. This achievement is less than the original estimate in 1977 of 2,506 upgrades by 1982, representing 70% of the 3,600 candidates identified at that time. The remaining upgrades are now scheduled forthe 1983-87 period instead of the 1983-85 period.

TABLE 17

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
RURAL UPGRADE PROGRAM
ANNUAL OBJECTIVES AND ACTUALS
1977-1982

CUMULATIVE NUMBER OF UPGRADED SUBSCRIBERS AT YEAR END

Year	Date of Estimate	Estimate		Actual	
		Subscribers	Percent*	Subscribers	Percent*
1977	April 1977	589	16%	281	8%
1978	April 1977	932	26%	338	9%
1979	February 1979	1,371	37%	1,088	29%
1980	February 1980	1,826	49%	1,719	45%
1981	March 1981	2,178	57%	1,944	51%
1982	July 1982	2,275	60%	2,116	56%

* Cumulative number of subscribers upgraded as a percentage of the total number of estimated upgraded candidates.

Source: OTSC18APR77-701 - OTSC23JUN78, Order 3731 1(g)
OTSC24JAN80-701, 701B - OTSC27JUN80, Order 3949 1(f)

Table 17 above shows the achievement on a year to year basis. After the slow start in 1977, the Commission stated in Order No. 3731, June 23, 1977:

> The Commission is disturbed by the fact that the rural upgrade program has not been given the priority in 1977 that the Commission anticipated as a result of the hearing in 1977. The Commission expects this program to be given the highest priority in 1978 and received assurances from the Company during the hearing that the rural upgrade program will go forward as scheduled and will receive top priority.

11.2.1 **Status of the Program (Cont'd)**

At the end of 1978, the program was still behind schedule but in response to Commission Orders 3731 and 3949, wherein the Commission stated its expectation that the rural upgrade program would remain on schedule and receive top priority, some catch up occurred due to substantial efforts made by NTL in 1979 and 1980. At the end of 1980, the program was virtually back on its original schedule. However, the program fell behind estimates again in 1981 and in

1982. In 1982, the remaining part of the program was extended to 1986, and in 1983 the estimates were further revised to show that the last upgrades would take place in the first quarter of 1987, some 15 months beyond the original objective made in 1977.

11.2.2 **Nature of the Program**

The estimated cost of the program has increased $6.9 million from the original estimate of $4.6 million to $11.5 million. Inflation over the period accounts for only a portion of the increase. The specific inflation factors for outside plant expenses are not available. However, by using the composite rate of inflation provided by the Applicant for all classes of plant, it can be determined that inflation accounts for approximately $2.7 million of the $6.9 million increase. The remainder of the estimated $11.5 million represents additional plant.

Over the years, the Commission has inquired into the reasons for the increases in cost estimates other than inflation. The main reason offered by the Applicant is that the original estimates were done on a "broad brush basis", and as the implementation date approaches, a detailed study is done and the final estimates represent more plant than originally anticipated.

In an attempt to separate expenditure for the upgrade program from their outside plant expenditures, the Applicant introduced a new reporting format in 1981. The new report provided a listing of all outside plant expenditures for provisioning outside the base rate boundary, which includes all rural areas where multi-party service is provided. The expenditures were separated into three classes and described in OTSC27JUN80, Order No. 3949 (1f) sheet 1 of 7:

1. **RURAL UPGRADE PROGRAM**

   Rural projects categorized as Rural Upgrade Program are those which provide for the reduction of line loads to 4 subscribers or less, elimination of existing aerial wire facilities presenting maintenance problems, upgrading of service requirements to existing non-urban customers, elimination of joint-use pole attachments and correction of hazardous plant conditions.

2. **RURAL GROWTH**

   Rural growth categorized as Rural Growth involves the provisioning of service to new customers where existing facilities have exhausted. The number of multi-party customers upgraded in these areas is very small, and therefore, is considered incidental to the need to provide for the demands of growth. Examples of projects included in this category are those providing feeder relief to Locality Rate Areas, to major business customers outside of the Base Rate Areas, to major business customers outside of the Base Rate Area, to subdivision developments or those providing cable to a customer demanding upgrade of service in advance of the scheduled Rural Upgrade Program and who is willing to pay a construction charge.

3. **UNSERVED TERRITORY**

   Rural projects categorized as Unserved Territory involve the provision of service to an area in which there is a concentration of customers in which no Outside Plant facilities exist. Areas could contain varying number of cottages, summer residences or a remote townsite established as a result of mining activity. These are non-urban customers whose premises are inside existing exchanges but do not front upon that part of a highway, road or street where facilities already exist.

The stated purpose of the new format was, in the Applicant's words:

> The Company has chosen to present the format attacheed, in order for the Commission to see how much the Company will be spending on Rural Projects, as well as how much the Company will spend on the Rural Upgrade Program for the years 1980 to 1985.

The Commission has monitored the expenditures for rural projects resulting from rural growth and for unserved territory and it has found a wide variance in year to year estimates. For example, the July 1982 estimates, provisions for service in unserved territory were estimated at $245,400 in 1985 and $116,300 in 1986. In the revised estimates of March 1983, the estimates showed no expenditures in those years. (NTL 83 Exhibit 1, Section 4, Appendix 7, and OTSC27JUN80, Order 3949 1(f).

During the financial hearing, the Commission examined specific rural upgrade projects in order to understand the changes to the estimates. The Commission found that almost all outside plant expenditures beyond the rate base boundary are reported under the rural upgrade program. This includes upgrades, growth for new subscribers as well as for one and two-party service, provisioning for unserved territory, and modernization. The Applicant is in the process of modernizing its outside plant by replacing its facilities. The new installations are mostly buried cable, they are of a sufficient capacity to provide for upgrading to four-party or less per line, provide for future growth for about 15 years and allow for service to unserved areas.

In this respect it is perceived by the Commission that, the Applicant's proposed rural upgrade program has now taken a new dimension since any delays will affect the provision of telephone service for new subscribers and for unserved areas as well as for upgrading to four-party. The new dimension also accounts for the higher estimates of expenditures since the detailed planning takes all requirements into consideration rather than those for upgrading alone.

11.2.3 Completion of the Rural Upgrade Program

To provide a full explanation for the reasons leading to the decision in Section 1.0 of this Order, the Commission has found it necessary to review the history of events surrounding the rural upgrade program from 1977 to the present.

In 1977 the Applicant, upon the request of the Commission, formally presented a rural upgrade program (OTSC18APR77-701) which stated the following objectives.

1. All multi-party subscribers to be converted to four-party service over the remaining 9 years (1977-1985).

2. Most of the demand for two-party and individual party business and residential service outside the Base Rate Area, also to be met in this period.

The Commission, concerned with the length of the program requested the Applicant to make alternate plans for a five year program to make four-party telephone service the minimum level of service throughout the Applicant's territory (OTSC18APR77-702). NTL replied that:

> The alternate five year rural program greatly increases the financial and staffing requirements of the Company compared to a ten year program.

> The Company's engineering and construction forces are currently effecting the remaining nine year program. The higher costs in earlier periods would likely cause all subscribers to feel the financial and service impacts of an accelerated rural program.

In 1977, the Commission heard from customers through written submissions and during the field hearings that multi-party service was no longer acceptable in NTL's serving territory. Although the Applicant was not ordered to proceed with the five year upgrade program, the Commission was very concerned that the Applicant make significant in-roads on the problem of over crowding on multi-party lines by achieving a maximum lineload service offering of four-party within a reasonable time frame.

It must be noted that, in June, 1977, Bell Canada, which was then the Applicant's parent company, had been ordered by the Canadian Radio-television and Telecommunications Commission (CRTC) to complete the Non-Urban Service Improvement (NUSI) Program within four years (CRTC Telecom Decision 77-7). The CRTC rejected Bell Canada's proposal to complete the NUSI program within five years. As shown in Table 17, NTL was little over half finished with their upgrade program when the Bell Canada NUSI program was completed in 1981.

In 1978, the Commission expressed concern over the Applicant's timing and progress on the upgrade program stating that:

> The Commission is disturbed by the fact that the rural upgrade program has not been given the priority in 1977 that the Commission anticipated as a result of the hearing in 1977. The Commission expects this program to be given the highest priority in 1978 and received assurances from the Company during the hearing that the rural upgrade program will go forward as scheduled and will receive top priority. (Order No. 3731, June 23, 1978)

The Commission's expectation was partially based on a statement made by Mr. Cooper, witness for the Applicant, during a financial hearing in June, 1978, that completion of the rural upgrade program by 1985 was "a realistic schedule" and his agreement that the rural program would be "a top priority for 1978". Through 1978, 1979 and 1980 the Applicant's customers began to realize the deferral of the upgrade program and the Commission heard from many of these customers during rate applications.

The Commission continued to monitor the progress of the Applicant and the findings were made in Order No. 3949, June 27, 1980.

> The number of written complaints received by the Commission as well as representations made during the field hearings with respect to the quality of service were less numerous than prior years. The Commission remains concerned, however with the fact that many of the complaints are related to multi-party telephone service.
>
> The Applicant has a rural upgrade program underway which will convert all multi-party suscribers to a minimum of four-party service by 1985. The Commission notes that the program is almost on schedule as a result of a substantial effort in 1979 whereby 750 subscribers were upgraded.

The Commission anticipated that the upgrade program would be completed by year end 1985. In fact, during the financial hearing of May 22, 1980, Mr. Cooper made this commitment to the Commission a number of times stating that:

> The projections we have made and the submission we have submitted to this Commission shows *we will complete it in 1985*. We submitted that in year-by-year detail.

and

> ...we see it as a service obligation and *we have made a commitment and we keep making it to the Commission once a year...*" (emphasis added)

Given these and other commitments by Mr. Cooper, it was the Commission's understanding that the upgrade program would be completed within the time-frame promised and therefore, saw no reasons to order the Applicant to complete the program by year end 1985. Nevertheless, the Commission continued to monitor the Applicant's rural upgrade program and although the program was not on schedule, the Applicant continued to hold to the commitment to upgrade all their multi-party customers to at least four-party line service.

The Commission's faith in the Applicant's commitment to complete the program by 1985 is reflected in the Commission's comments, regarding a field hearing in New Liskeard held in 1982.

> During the field hearing in New Liskeard, customers complained to the Commission regarding the quality of service and the difficulty experienced in trying to get service repaired promptly and adequately. Mr. Cooper, witness for the Applicant indicated verbally that many of the difficulties and outages experienced by customers would be rectified as the Companys upgrade program was completed. Although the upgrade program to a minimum of four-party service is not planned for completion until December 1985, many of the customers will be provided with better quality and higher grades of service as specific areas of the operating territory are completed. (Order No. 4151, June 9, 1982).

Also in 1982, the Commission became cognizant of the policy of the Government of Ontario and its objective that all customers served by the independent telephone systems achieve a level of basic service not to exceed a lineload of four-parties. The policy was developed in recognition of the fact that rural customers had come to expect four-party service as the minimum level of service acceptable. The target date was set for December 31, 1985 unless varied by the Commission's approval.

The Applicant's last rate application was filed on July 23, 1982. In the application the Applicant showed that the rural upgrade program would not be completed on schedule and that all customers within the NTL serving territory could not expect to receive telephone service with a maximum lineload of four-parties until 1986. The Commission accepted the one year postponement, observing that there was a major recession and some restraint was required. The Commission also expressed their concern in Order No. 4196, dated January 18, 1983, that:

> The Commission has closely followed the progress of the Rural Upgrade Program which was to be completed in 1985. The Commission is now concerned with the revised schedule which will extend to 1986. This was done to reduce the overall level of expenditure in the 1982 to 1985 period and it resulted in the deferral of many projects, some of which had been subject to earlier deferrals.

Approximately five months after Order No. 4196 was issued, the Applicant filed the current rate application. NTL proposed to postpone the completion of the upgrade program an additional year until 1987. As outlined in Section 2.0 of this Order, the Commission held three field hearings in the Applicant's territory and received a number of written submissions in response to the proposed rate increase. The Commission has found that most of the complaints and areas of concern dealt with the upgrade program. The Commission heard from individuals frustrated with the repeated postponing of the upgrade program in the areas win which they reside. By way of illustration the Commission has included Tables 18 and 19 which show the situation faced by customers waiting to be upgraded in the Englehart and Earlton areas at various times from the beginning of the rural program in 1977 to its proposed completion. In particular, Table 19 shows that the Applicant, as late as 1979, planned to upgrade all of its Englehart area customers on multi-party service by 1982. The plan currently proposed by the Applicant would see a deferral of the upgrading of these customers to 1987, five years later than the original commitment.

TABLE 18

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
RURAL UPGRADES - EARLTON AREA
NUMBER OF SUBSCRIBERS

	DATE OF ESTIMATE						
YEAR END	APR 1977	FEB 1979	FEB 1980	MAR 1981	JULY 1982	JULY 1983	SEPT 1983
1977	38*	—	—	—	—	—	—
1978	58*	2	2	2	2	2	2
1979	—	54*	9	9	9	9	9
1980	—	—	46*	46	46	46	46
1981	—	—	—	127*	29	29	29
1982	236*	236*	—	—	102*	40	40
1983	30*	30*	184*	184*	61*	—	—
1984	—	—	29*	29*	—	64*	64*
1985	—	—	—	—	152*	152*	214*
1986	—	—	—	—	—	—	—
1987	—	—	—	—	—	—	—

*Estimate

Source: OTSC18APR77-701, OTSC23JUN78 Order 3731 1(g), OTSC24JAN80-701, 701B OTSC27JUN80, Order 3949 1(f), OTSC27JAN80, Order 3949 1(f), NTL 83 Section 4, Appendix 7, OTSC30SEP83-323, OTSC30SEP83-322.

11.2.3 **Completion of the Rural Upgrade Program (Cont'd)**

A five year postponement of such an important project is not reasonable in the view of the Commission and more importantly in the view of the Applicant's customers. During the field hearings the Commission heard from customers who found that telephone service with five or more people per line was no longer adequate in today's society and given the current technology.

The inadequacy of multi-party service was probably best expressed by Mr. David Ramsey, President of the Temiskaming Federation of Agriculture, who thought that when the rural upgrade program is finally completed, four-party service will be obsolete and inadequate for the farmers represented by his Federation, who will require a much more sophisticated level of telecommunications. In this regard, the Commission was pleased to hear Mr. Cooper state that the facilities being installed in conjunction with the upgrade program would be sufficient to provide a one or two-party level of service where required.

The Commission was persuaded by the submission presented by Mr. Ramsey and others: multi-party service can no longer be considered basic service. As noted earlier, almost all telephone customers in Ontario are now provided with telephone service on a maximum lineload of four-parties and many of the telephone systems subject to the Commission's jurisdiction already provide one and two-party telephone service exclusively.

The perception frequently expressed by the Applicant's customers that increases in rates should be related to improvements in service is entirely appropriate in the Commission's view. Certainly where projects have been postponed repeatedly, despite commitments from the Applicant, rate increases cannot be justified. The problem is particularly acute in the Englehart area whre, as noted earlier, the Applicant's customers are being told to wait five years past the date the service was promised.

It is not reasonable to require customers on multi-party lines to pay more for a grade of service no longer adequate by today's standards. If the Applicant had held to its commitment to provide a maximum lineload of four-parties by 1985, the current rate application, with the use of a 1984 test year, would display a rural upgrade program almost completed. It would then be feasible to associate an increase in rates with a more acceptable level of service. Unfortunately, this is not the case. Therefore, the Commission has denied any rate increase for multi-party service in this rate application.

In the Commission's view the rural upgrade program is the most important aspect of NTL's construction program. During the financial hearing on November 24, 1983, the Applicant was questioned extensively on its progress and the reasons for the delay. The Commission also examined specific rural projects in order to understand the Applicant's changes to the estimated rural upgrade program expenditures. It was learned that almost all outside plant expenditures outside the base rate boundary are included in the rural upgrade. This expanded definition of the rural upgrade program has been the cause of some confusion and has not aided in an effective monitoring of the upgrade program.

The history of the Applicant's rural upgrade program to date has convinced the Commission that it cannot depend upon the Applicant to meet the commitment which was made to its customers and to the Commission. The reasons for the delay to 1987 as explained by the Applicant are inadequate and not acceptable. The additional expenses which would be incurred in 1986 in order to complete the entire program are relatively insignificant.

TABLE 18

NORTHERN TELEPHONE LIMITED
TELEPHONE OPERATIONS
RURAL UPGRADES - ENGLEHART AREA
NUMBER OF SUBSCRIBERS

	DATE OF ESTIMATE						
YEAR END	APR 1977	FEB 1979	FEB 1980	MAR 1981	JULY 1982	JULY 1983	SEPT 1983
1977	206*	89	89	89	89	89	89
1978	—	—	—	—	—	—	—
1979	83*	—	—	—	—	—	—
1980	—	33*	10*	—	—	—	—
1981	—	—	—	—	—	—	—
1982	100*	100*	—	—	—	—	—
1983	—	—	66*	66*	66*	—	—
1984	—	—	—	—	—	—	—
1985	—	—	10*	—	—	—	—
1986	—	—	—	—	—	8*	66*
1987	—	—	—	—	—	77*	77*

*Estimate

Source: OTSC18APR77-701, OTSC23JUN78 Order 3731 1(g), OTSC24JAN80-701, 701B OTSC27JUN80, Order 3949 1(f), OTSC27JAN80, Order 3949 1(f), NTL 83 Section 4, Appendix 7, OTSC30SEP83-323, OTSC30SEP83-322.

11.2.3 **Completion of the Rural Upgrade Program (Cont'd)**

For all of these reasons the Commission will not accept the postponement of the upgrade program and therefore has ordered the Applicant to provide a maximum of four-party service to its customers by no later than December 31, 1986.

In order to accomplish this review, the Commission has also directed NTL to file a complete and detailed rural upgrade program, within six months of the date of this Order, which will show how all of its customers will be provided with telephone service with a lineload of four-party by December 31, 1986.

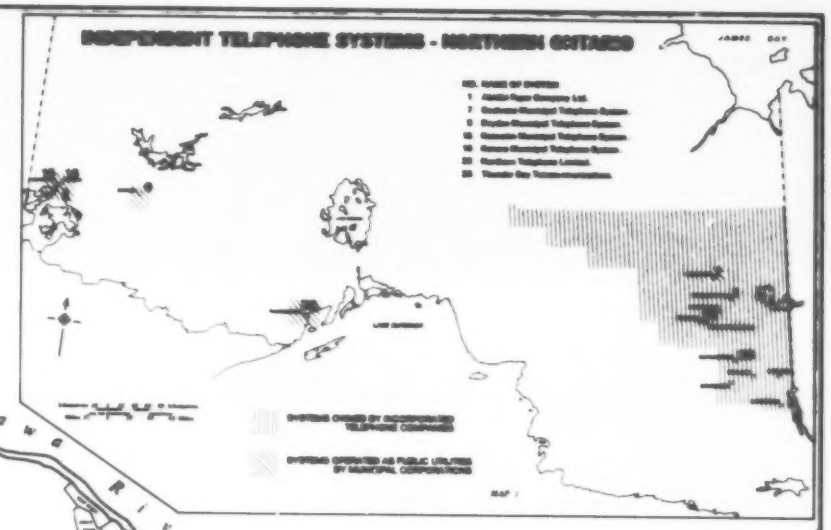
The Commission's approval of any future rate application requesting an additional revenue requirement will be conditional upon the Applicant's ability to meet the schedule of the rural upgrade program.

11.3 EAS for Timmins, Connaught and Kamiskotia

The issue of EAS between Timmins, Connaught and Kamiskotia was first raised with the Commission briefly during the field hearing in Timmins on October 17, 1983, and later during the financial hearing on November 24, 1983, (see Section 2.0 of this Order). According to Exhibit 5, submitted by Alderman D. Welin and Alderman Krznaric, on behalf of the City of Timmins, the Applicant had committed to providing EAS within the three areas of concern by 1984. The submission requested "...whether there is any the Ontario Telephone Service Commission could assist the residents of Connaught and Kamiskotia in obtaining a firm commitment from Northern Telephone with regard to equipment installation and elimination of long distance charges." The question of whether or not to provide EAS had apparently already been decided and implementation of the decision only awaited the installation of the equipment required to provide EAS. Mr. Cooper explained that the provision of EAS was deferred until 1986 because of higher priorities facing the Applicant, particularly the rural upgrade program and the $900,200 cost of providing EAS to Timmins for 200 customers. (Timmins, Transcript Page 9). During the financial hearing, Mr. Cooper told the Commission that he had written a letter to the City of Timmins in September outlining the reasons for the deferral of the Connaught-Kamiskotia work until 1986. Although the Commission has not received a copy of this letter, Mr. Cooper's explanation will serve as a firm commitment on behalf of the Applicant to provide EAS between Timmins, Connaught and Kamiskotia by 1986. If, for any reason, the Applicant proposes to defer the provision of EAS past 1986, it will be contingent upon the Applicant to provide an explanation to the Commission by no later than year end 1985.

Chairman

INDEPENDENT TELEPHONE SYSTEMS - SOUTHERN ONTARIO



LAKE HURON

GEORGIAN BAY

Lake Nipissing

OTTAWA RIVER

Lake Simcoe

LAKE ONTARIO

St. Lawrence

Lake St. Clair

LAKE ERIE

MUNICIPAL SYSTEMS

SYSTEMS OWNED BY INCORPORATED TELEPHONE COMPANIES

ONTARIO TELEPHONE SERVICE COMMISSION

Ministry of Transportation and Communications

MAP 2